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TREATMENT OF WOMEN UNDER SOCIAL SECURITY

(Assessments of Administration's Recent Proposals for Altering Social Security)

COMPLETED

ORIGINAL

HEARING

BEFORE THE

TASK FORCE ON SOCIAL SECURITY AND WOMEN

OF THE

SUBCOMMITTEE ON RETIREMENT INCOME AND EMPLOYMENT

AND THE

SELECT COMMITTEE ON AGING HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

JUNE 3, 1981

Comm. Pub. No. 97-294

VOLUME IV

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TASK FORCE ON SOCIAL SECURITY AND WOMEN

MARY ROSE OAKAR, Ohio, *Chair*

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TREATMENT OF WOMEN UNDER SOCIAL SECURITY

(Assessments of the Administration's Recent Proposals for Altering Social Security)

WEDNESDAY, JUNE 3, 1981

U.S. HOUSE OF REPRESENTATIVES, TASK FORCE ON SOCIAL SECURITY AND WOMEN, OF THE SUBCOMMITTEE ON RETIREMENT INCOME AND EMPLOYMENT, AND THE SELECT COMMITTEE ON AGING,

Washington, D.C.

The task force met, pursuant to call, at 9:30 a.m., in room 311, Cannon House Office Building, Hon. Mary Rose Oakar (chairwoman of the task force) presiding.

Members present: Representatives Oakar of Ohio, Pepper of Florida, Ferraro of New York, Frank of Massachusetts, Fenwick of New Jersey, Petri of Wisconsin, and Wortley of New York.

OPENING STATEMENT OF CHAIRWOMAN MARY ROSE OAKAR

Ms. OAKAR. The task force on social security and women of the Select Committee on Aging will come to order.

I want to thank our witnesses in advance for sharing with the task force their assessments of the administration's recent proposals for altering social security. Those of us in the Congress who have been working to make social security more equitable and adequate for women were shocked, dismayed, and deeply disturbed by this administration's proposals. These proposals will radically alter our Nation's premier retirement income program; certainly they will undermine the very concept of social security as a social insurance program for our Nation's workers and their families. The impact of these proposals on women will be catastrophic. Many women now receiving social security benefits live at the minimum subsistence level. What will happen to these women if these proposals become law is almost unthinkable.

As chair of the task force on social security and women these past 2 years, I have heard a great deal of testimony about the economic conditions of older women and their status under social security. We have heard not only from experts and policymakers, but from older women themselves. Throughout this time I have been struck by how little we know about older women.

Traditionally, the Social Security Administration kept little data on female beneficiaries. Until recently there have been no advocacy groups for older women. Scholars and social welfare analysts have devoted little time to the problems and needs of elderly

women. In other words, until very recently we knew almost nothing at all about older women.

Today, we know a great deal about them, but the news that the charts and statistical tables report is not happy. The fact is that millions of older women—and the great majority of single older women—live out their lives in poverty; 72 percent of our elderly poor are women. The average social security benefit of a single older woman is under $250 a month. Most depend on social security for the bulk of their income. The odds are that a married woman will be widowed before age 65 and remain unmarried, living alone, for another 10 to 15 years. The typical single older woman has no private pension, few savings or other assets, and is likely to be unemployed or underemployed. All too often to be old and female is to be poor. A little over 70 percent of the recipients of supplemental security income, the means-tested income maintenance program for our Nation's needy aged, blind, and disabled, are women.

The extraordinarily high incidence of poverty among aged women stems at least in part from their variable social and work roles which are not easily accommodated under the present social security system. In other words, women are penalized—and victimized—under social security because of the conflicting roles our society ascribes to them. For instance, if married women work in the home they will have limited and in some cases inadequate protection under social security. Homemakers have no disability protection at all, even though their work has tremendous economic and social value. As paid workers, women are likely to be employed in low-paying jobs with little hope of advancement. Their social security benefits, based on past earnings, will likewise be intolerably low. Women who combine homemaking and paid work roles experience gaps in social security coverage: they may lack disability coverage in spite of their years of work in the labor force; their spousal benefits will not reflect their years of work and contribution to social security; their earnings record will be adversely affected by the years of zero earnings.

Social security offers little protection, and in some cases absolutely no protection, to divorced spouses with a limited history of work in the labor force. Finally, the program favors one-earner couples of lifetime marriages in a period of our history when the divorce rate is climbing and the two-earner couple is the predominant family form.

I have introduced legislation in the 96th and 97th Congresses aimed at improving the economic status of older women and their protection under social security. I was confident at the time that a case could be made for changing the system, and that some modified version of earnings sharing offered the most promising solution. A number of national study commissions, some of them appointed by former President Jimmy Carter, arrived at a similar conclusion. I was heartened to hear candidate Reagan say, in the campaign debates in my home district of Cleveland—and I was in the audience at the time—that social security treated women unfairly and that reforms were needed. At long last, I said to myself, we all recognize that serious problems exist. I looked forward to

the process of implementing solutions outlined in my own six-bill package.

The administration proposals betray candidate Reagan's concern. They have pictured social security as a bankrupt program, not only financially but, I believe, conceptually. There is a very great danger that in the coming debates in this Congress concerning social security financing that the needs, interests, and concerns of young and older women alike will be lost. This hearing has been called this morning to redirect attention to the group that suffers most under social security. I know that information received from our distinguished witnesses this morning will help guide my colleagues, me and I hope our fellow citizens, in honestly evaluating the impact of the administration proposals on women.

Specifically, this task force is concerned about the potential impact of the following proposals, and whether these proposals make the social security system more discriminatory than it already is toward women in the future.

The Gramm-Latta elimination of the minimum benefit: this will cut benefits by about 40 percent; about 85 percent of the beneficiaries affected will be women.

The Gramm-Latta elimination of postsecondary student benefits: 32 percent of all benefits went to families with incomes under $5,000; the benefit loss will impose an additional burden on the widowed mother who will lose her own benefit.

The administration proposal to reduce benefits for future early retirees and their spouses: benefits will be cut from 80 percent to 55 percent of the earner's P.I.A.; the spouse's and widow's already inadequate benefit will be cut back even further.

The administration proposal to reduce benefits to families of retired and deceased workers: the imposition of a cap on family benefits will result in a severe benefit cutback.

Administration proposal to reduce benefits through the addition of 3 more years to the retirement computation period (regardless of whether a person retires at 62 or 65): this proposal will penalize women who combine homemaking and paid work roles.

Administration proposal to increase the number of years needed to qualify for disability benefits and the use of medical standards only for determining eligibility: potentially disqualifying more than 15 million women now eligible for disability benefits.

The task force also welcomes comments on the appropriateness of the administration's proposals as a solution to the anticipated shortfall in the OASI trust fund, and the adequacy of the social safety net.

I would like to call on my distinguished colleague who has been a leader in pension reform and a member of this task force since its inception, Congresswoman Ferraro.

STATEMENT OF REPRESENTATIVE GERALDINE A. FERRARO

Ms. FERRARO. Thank you very much, Madam Chair. I have a rather lengthy statement which I would ask unanimous consent to have inserted in the record. I will not read it.

I am not very good at voicing anger and frustration in 25 words or less but I am pretty good at working with those to develop a position to fight the programs that lead to those frustrations and

that anger; so though I am not going to be here for the full course of the hearing, because we do have a Democratic caucus now in progress, I promise all the people who are here I will read their testimony and the record and hopefully we will work together to do something about the budget cuts and how they are affecting women.

I will, of course, remain to hear my colleagues' testimony and then we will all go off together.

[The prepared statement of Representative Geraldine A. Ferraro follows:]

PREPARED STATEMENT OF REPRESENTATIVE GERALDINE A. FERRARO

Good morning. I am very pleased to be here today to participate in these hearings on the impact of the Administration's proposed social security changes on women. I would like to take this opportunity to commend Congresswoman Oakar for holding hearings on a matter of vital concern for all women. I hope that with these hearings, we can make progress towards giving this matter the attention it deserves.

As a member of this Task Force, I have been concerned, as so many of you have been, about the inequities women face in the social security system. Today, we are faced with proposals to reduce social security benefits which will have a dramatic impact on women.

As most of you are aware, social security is the major source of income for older Americans—in many cases the only source of income. For older women, the importance of social security cannot be overstated—60 percent of unmarried women over 65 have no income source other than Social Security. And, although in recent years the economic status of the older population has improved, older women are the fastest growing poverty group in this country—in 1977 alone, women accounted for approximately 70 percent of the aged people in poverty.

The Administration's proposed social security changes strike at the heart of a promise—a commitment—we made to the older people of this country, including the older women of this country. And, we should be clear that the reductions the Administration are proposing are not the only cuts which have been proposed. Contained within the budget resolution are proposals to eliminate the student benefit, the minimum benefit, and in certain cases the lump-sum death benefit. In total, the Administration proposes to cut social security by approximately $82 billion.

The Administration has proposed severely penalizing people for early retirement. They will accomplish this goal by reducing the benefits for early retirement received by both the worker and the worker's spouse. The computation for determining the average indexed monthly earnings for those age 62 to 65 will also be changed, a reduction which will be absorbed by women whose labor force participation rates are lower than men. In addition, the benefits to dependent children of workers who retire early will also be eliminated. Now, extensive research shows that approximately 74 percent of people who retire early do so involuntarily—because they simply are not capable of working any longer.

The Administration is also proposing $20 billion in cuts just to the disability program. Two proposals, in particular, will severely affect women. The Administration's proposal to require stricter insured status requirements, or the recency of work test, will have a disproportionate impact on women because of the higher prevalence of disability among women. In addition, the lower labor force participation rates for women makes it more likely that women will lose their disability insured status. Women who leave the work force to have children or take care of sick family members are the women who will be hurt the most by this proposal.

The Administration has also proposed placing a cap on the disability maximum family benefits. This proposal would have the effect of eliminating or reducing the spouse benefit for lower income workers.

There is not one area in which the Administration's proposals do not hit women and hit them hard. Disability, COLA's, changes in computation formulas, early retirement—these cuts represent a major breach of contract we have made with the American people. These reductions are reductions that go far beyond what is needed to make the social security system solvent over the short-term deficit. I hope that the testimony we will hear today will help us to evaluate the extent and impact of these recommendations on the women of this country. Thank you.

Ms. OAKAR. Thank you. I hope my colleagues will hold the fort with me with respect to tax reform also. I am sure I will be well represented.

Our first panel includes Congresswoman Barbara Mikulski who represents the Third District of Maryland, Congressman James Oberstar from the Eighth District of Minnesota and Congresswoman Pat Schroeder who is from the First District of Colorado and also the cochairman of our Congresswoman's caucus.

I want to thank you for your patience and for being here. I know it is a concern you have expressed in the past and we are delighted to have you here now.

Congresswoman Mikulski, you may proceed in any way you would like.

STATEMENT OF HON. BARBARA A. MIKULSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Ms. MIKULSKI. Thank you very much, Cogresswoman Oakar, and I would like to thank you for the leadership you have taken in convening this hearing and for the leadership you provided in this issue in the past.

I would like submit my prepared statement for the record.

Ms. OAKAR. So ordered.

Ms. MIKULSKI. Madam Chairman, the administration has proposed changes that not only do not address the existing inequities in the system, but actually exacerbate them.

The proposed changes breach a contract that this country has had with its workers since 1936. Never before has a President presumed the right to break such a contract.

Never before has an administration attacked a program that represents this country's commitment to the family and the work ethic.

Never before has an administration so flagrantly attacked the main program in this country that gives a person a chance for an old age of dignity and financial security. Where we send millions of Mother's Day cards to express our gratitude—yet the very social security policies we have insure that no woman will get her social security check.

The women I represent say keep your Mother's Day cards and give us a guaranteed annual income in our old age.

The administration proposes to extend the required number of quarters worked from 5 out of the last 10 years, to 7 out of the last 10 years in order to be eligible for disability benefits.

What about the woman who chooses to leave the paid work force to bear children and to raise them at some point in that 10-year period?

What happens to her when she reenters the work force, if she becomes disabled before she requalifies?

For a mother to become disabled we find she will have no protection and there will be no economic resource for that father to be able to pay for the services his family needs.

What do we tell the homemaker who has left the paid work force for a period of time to raise children and whose income is considered zero during that period of child-rearing when her benefits are

computed, and who therefore receives less in retirement benefits? She gets no credit for being at home and being a mother.

What do we say to the 61-year-old woman who has spent a lifetime making a home for her husband and children, who is divorced and has no income, and cannot receive any of the social security benefits she is entitled to until her husband chooses to retire?

How do we tell the older workers—and this is even more true for the older woman worker—who must retire before 65 years of age because of poor health, inability to find a job, or lack of mobility that they are really after a free ride, and "luxury retirement"?

We must be careful about how we use the term "luxury retirement" or even "early retirement". It means something completely different to a 62-year-old female domestic worker who has raised three children on her own, than it does to the president of a major corporation.

She might live longer but she can't work longer.

We know that many of the women of this country, work in what we call the pink collar ghetto. That means those that are in the standup jobs, the dime stores and the fast food chains—those are the jobs that I call the varicose vein jobs because after a certain point that is what you end up with—a bad back and varicose veins and not enough in social security to provide any type of dignity.

In conclusion, I would like to say the people we are talking about are not double-dippers and they are not looking for a free ride, they are looking for that which is theirs.

Women constitute the majority of the aged population in this country. As a subgroup, older women are the poorest of the poor. So let those who are proposing to cut minimum benefits to those who "have not earned" them, keep in mind, that they will be cutting benefits to those who have borne and nurtured our young, and whose current reward is often an old age of poverty, loneliness, hunger, and poor health.

Let us make this crisis an opportunity to propose changes in the social security system that will not only assure its solvency but will show a respect for the life and dignity of all people, particularly mothers.

[The prepared statement of Representative Barbara A. Mikulski follows:]

PREPARED STATEMENT OF REPRESENTATIVE BARBARA A. MIKULSKI

We are an interdependent society in which those of appropriate age and adequate health support the very young, the aged and the disabled.

We all know that changes must be made in the Social Security system and we all know that they must be made soon. We must not, however, allow the urgency of the situation to cloud our judgement and commitment to the older people of this country who have contributed to the system all of their working lives.

The administration has proposed changes that not only do not address the existing inequities in the system, but actually exacerbate them. The proposed changes breach a contract that this country has had with its workers since 1936. Never before has a president presumed the right to break such a contract. Never before has an administration attacked a program that represents this country's commitment to the family and the work ethic. Never before has an administration so flagrantly attacked the main program in this country that gives a person a chance for an old age of dignity and financial security. Once again, what we explicitly state as values, we implicitly deny in policy.

The Administration proposes to extend the required number of quarters worked from five out of the last ten years, to seven out of the last ten years in order to be

eligible for disability benefits. What about the woman who chooses to leave the paid work force to bear children and to raise them at some point in that ten year period? What happens to here when she re-enters the work force, if she becomes disabled before she requalifies?

What do we tell the homemaker who has left the paid workforce for a period of time to raise children and whose income is considered zero during that period of childrearing when her benefits are computed, and who therefore receives less in retirement benefits?

What do we say to the 61 year old woman who has spent a lifetime making a home for her husband and children, who is divorced and has no income, and cannot receive any of the social security benefits she is entitled to until her husband chooses to retire?

How do we tell the older workers (and this is even more true for the older woman worker) who must retire before 65 years of age because of poor health, inability to find a job, or lack of mobility, that they are really after a free ride, and "luxury retirement". We must be careful about how we use the term "luxury retirement" or even "early retirement". It means something completely different to a 62 year old female domestic worker who has raised three children on her own, than it does to the president of A.T. &. T. The proposed reduced benefits for early retirees would not only breach a contract that we've had with the American worker, but, in essence, would penalize those employers who have established pension plans for their employees and promised older workers adequate support in retirement in exchange for making room for younger workers. The American worker is not a "double dipper".

Women constitute the majority of the aged population in this country. As a subgroup, older women are the poorest of the poor. So let those who are proposing to cut minimum benefits to those who "have not earned" them, keep in mind, that they will be cutting benefits to those who have borne and nurtured our young, and whose current reward is often an old age of poverty, loneliness, hunger, and poor health.

Let us make this crisis an opportunity to propose changes in the social security system that will not only assure its solvency but will show a respect for the life and dignity of all people.

Ms. OAKAR. Thank you very much, Congresswoman.

Congressman Oberstar, if you would like to proceed next, then we will reserve time for questions.

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. OBERSTAR. Thank you very much, Madam Chairman.

I have a more complete statement I would like to submit for the record and summarize because it does go into considerable detail.

Ms. OAKAR. It will be received.

Mr. OBERSTAR. I am happy to be here and congratulate you on holding these hearings to appeal for equal treatment for women who apply for disability benefits under the social security system.

Historically, widows have had to meet a stricter test for disability benefits than workers in the paid force. Their age, their education, and their experience have not been considered as factors in their employability.

Take the example of a 59-year-old widow—this is not a rare example—who is illiterate, who is severely physically impaired.

She would be denied disability benefits even under existing law if she could be considered capable of sedentary work. I have numbers of cases—and I have witnessed these over a period of 20 years in congressional case work—of this very type of example. That is why I cite it.

Yet the identical person in the paid work force under those very same circumstances over and over again is approved for the disability benefits.

Contrary to the history of awarding full benefits to a worker found disabled, a widow who is judged disabled has her annuity reduced by as much as 50 percent below that of the person in the paid work force. That is just unfair. That is not right.

The Reagan administration proposals for disability benefits and social security are in accord with my purpose of being here. They do want to have equal treatment but at a far lower rate, at a far reduced benefit level and a far more rigid and strict standard, and even then I am not sure they will equal the treatment of the case I just cited of the elderly widow who now is left out.

To achieve their objective the Reagan administration wants to change the definition of disability to eliminate age, educational experience as criteria. That is not right.

They want to add another month to the 5-month waiting period before entitlement begins.

They want to change the work history from 5 out of 10 years to 7½ years out of the previous 10 years before the previous disability begins.

The last—and I was just shocked to see this—they want to have a 24-month disability period before you can be entitled to benefits.

I checked on the statistics of what happens to a person in the first 24 months of entitlement, 11.5 percent of women die before the end of that 24-month period and 15 percent of the men die in that 24-month period.

No statistics are available as to how many people now die during the existing 5-month waiting period or how many more will die before benefits could begin if the extra month is added to the waiting list.

The medical profession cannot now accurately predict that a completely disabling condition will last 12 months. It will be even more difficult to predict a 24-month period of disability.

Only the terminally ill and permanently disabled will be awarded benefits in a timely manner. Those who are expected to recover, but do not do so, will never see their benefits until after the 24 months have passed—provided they live that long.

I have had an experience with a case in my district of a woman who had a very long work history. She was in and out of the work force raising children. She had 19 quarters of coverage in the 10 years immediately before she discovered she had multiple sclerosis. She was the type of case Congresswoman Mikulski just cited, she had a standup kind of job, a bank teller.

Because she lacked one quarter of coverage she was ineligible for disability benefits. Her family, her husband, has virtually bankrupted himself trying to cover her situation. He was a worker in steelwork, he wasn't making a lot of money—back-breaking money. But for one quarter.

Now they want to make it 30 out of 40 quarters.

If the criteria that are encompassed in the legislation that I have introduced and you have introduced and so many in the Congresswoman's Caucus have supported had been the law this case would not have existed. This person would not have been in and out of the welfare rolls and her family virtually bankrupted.

That is not right. That is not right in our society.

I really congratulate you on holding these hearings and on focusing public attention on this issue. I hope that out of these hearings will come some positive constructive and specific legislative recommendations to the House Ways and Means Committee that we can all rally around and correct this inequity and provide fair treatment.

[The prepared statement of Representative James L. Oberstar follows:]

PREPARED STATEMENT OF REPRESENTATIVE JAMES L. OBERSTAR

Madam Chairman, every change in the Social Security Act impacts on women—as workers, spouses, or survivors; many times as all three. The Reagan administration proposals, if enacted into law, will leave thousands of women with reduced income in retirement and widowhood.

I will leave to other witnesses to comment on the requirement for 3 more years of work, modifications in the computation for determining entitlement and benefit changes such as the drastic reduction in the family maximum benefit payable. I would like to concentrate my remarks on the disability insurance program.

In 1967 disabled widows over age 50 were made eligible for actuarially reduced survivors' benefits, but only if they met a more stringent test of disability than applied to wage earners. In 1967, it seemed necessary to gain some experience with widows' claims, to learn how many widows would apply for benefits, before an attempt would be made to evaluate vocational factors. Many of these women would have been lifetime home makers and it would be difficult to judge what skills they had developed in a home making career which would have applicability to gainful activity in the economy.

Arguments in support of a different criteria for disability have not been valid for many years. We now know how many widows we are talking about and we have seven and a half years experience judging the vocational potential of Supplementary Security Income (SSI) applicants, many of whom also lack paid work experience.

Since my election to Congress, I have repeatedly urged that widows at any age be judged the same as other disabled individuals. The Reagan administration apparently agrees with me that the disability test should be equalized. However, it was my intent that the test for widows be liberalized, not the other way around.

The percentage of claims approved on the basis of vocational factors combined with severe impairments increases with the age of the disabled individual. In 1979, the latest year for which figures are available, only 6 percent of under age 50 claims were approved on vocational criteria. The percentages for older age groups were: age 50-54, 17 percent; age 55-59, 29 percent; and age 60-64, 36 percent. The remaining claims are approved on the basis of medical evidence alone.

In the mid-1970's, the number of approved disability claims rose rapidly. The increase is partially attributed to greater public awareness of disability insurance and to the transfer of the Aid to the Disabled program to Federal administration. Some persons who applied for SSI are found to be entitled to social security based on their wage record. It was also generally concluded that State agencies, which have responsibility for evaluating disability, were not correctly applying medical or vocational standards. Measures were taken since that time to improve and strengthen administration of the disability insurance program. Medical-Vocational Guidelines were published and a greater percentage of cases were reviewed to insure compliance with the standards. As a result of those efforts, the number of claims approved last year was only 389,152--a 10 year low. Approved claims in relation to each 100,000 insured workers, 320 women and 470 men for an average of 411 in 1980, is lower now than at any time since 1964.

Continuing Disability Investigations of those on the disability rolls, required by the 1980 Disability Insurance Amendments, have been accelerated by the Reagan Administration. Persons judged not as severely disabled as the existing standards require and those determined to have recovered will lose their benefits.

In view of these ongoing efforts to insure that no one capable of holding a job is receiving disability benefits, the proposed elimination of vocational criteria can be judged nothing less than punitive to individuals who have the misfortune to become disabled.

I am told the Medical-Vocational Guidelines now in use are themselves so strict with respect to application of vocational factors they are considered "inhumane" by vocational rehabilitation officials and disability specialists. No one is arguing that these severely disabled individuals are capable of holding a job even if they could

find an employer willing to afford them an opportunity to work. Under the Guidelines, the only way an under age 50 applicant can receive benefits is if he or she is capable only of sedentary labor, is completely unskilled or lacking in experience and, in addition, is illiterate or unable to communicate in English. The only way an over age 60 applicant can receive benefits is if he or she is capable of only light or sedentary work, has limited education and is either unskilled or has no skills which are transferable to any type of light or sedentary jobs which exist in the economy.

These are the persons, many of whom have been working in heavy labor for 35 or 40 years, who would be denied social security disability benefits if the Congress approves the President's proposals.

As if elimination of the vocational test were not harsh enough, three other changes are proposed.

The first would make those individuals judged disabled wait an additional month before receiving benefits. Under present law, there is a waiting period of five full months before benefit entitlement begins. If disability begins after the first day of a month, the following month starts the waiting period. For this reason, most individuals already have to wait until the end of the seventh month before a disability check is due.

Second is an increase in wage credits. Currently, a wage earner retains disability insurance protection if he or she has worked five full years out of the prior ten. Reagan initially proposed a requirement of work in six out of the thirteen calendar quarters ending when disability begins. His new proposal is for work in thirty out of forty calendar quarters. This work requirement will virtually eliminate disability insurance protection for young women who leave the labor force when a child is born and will severely limit such protection when a woman returns to work when family responsibilities permit or require paid work participation. Disability benefits will be threatened for those who incur debilitating diseases such as arthritis, multiple sclerosis, or severe heart impairments requiring extended hospitalization or causing loss of employment before medical evidence alone will be considered sufficient to entitle the individual to social security disability benefits.

The third recommendation, requiring a disability prognosis of 24 months, in lieu of the present twelve, would, in practice, mean that no individual expected to eventually recover would qualify for disability benefits for no medical or disability specialist would be willing or able to predict that the requisite level of disability would last for two years.

What, then, will be the result of enactment of the Reagan disability standards? The experience with disabled widows suggests a good many applicants will totally exhaust all resources and qualify for SSI. Those with dependent children will become eligible for AFDC. In either case, part of the responsibility for their care will be shifted back to the States when they and their families qualify for Medicaid.

If the disability criteria for SSI, now identical to that for wage earners, is left unchanged, we will have the anomoly of the State Disability Determination Section finding the wage earner is not disabled for social security purposes but is disabled for SSI. If the definition of disability for SSI is also modified, we will have, in large measure, reversed the Federalization of the Aid to the Disabled program because many of these individuals will need to be provided for under a State general assistance program.

That, of course, will not happen to all persons denied benefits. In most instances, a spouse will enter or remain in the labor force and will support the family under a reduced standard of living. Homes will be lost due to inability to meet payments. Life savings intended to provide a supplement to social security in old age will be lessened, if not depleted. If the worker is advanced in years, social security benefits may become payable, but at an actuarially reduced rate—a rate which under the Reagan Administration proposal will provide a lifetime annuity of from eighteen to twenty percent, or less, of pre-disability income. Dependent protection will not be available until the annuitant is 65 years of age and survivor protection upon the worker's death will be drastically reduced.

To understand how severe will be the economic impact of these proposals, we must look at the rest of the Reagan social security proposals affecting benefit computation and compare them with existing law.

Present law presumes, for workers born in 1929 or later, a work life of forty years. When lifetime income is averaged to determine social security entitlement, five years of low or no earnings can be disregarded and the resulting years are indexed, totaled and divided by thirty-five. The Reagan proposal presumes a forty-three year worklife and asks that lifetime indexed earnings be divided by thirty-eight to obtain an average. For persons born prior to 1929, the Reagan proposal would add one year each year for the next three years to whatever number of years are now required to determine a lifetime average. For example, persons born in

1922 who are now fully insured if they have thirty three quarters of coverage and whose lifetime wages are now averaged by counting twenty-eight years will need thirty-six quarters of coverage to be insured and will have thirty-one years of wages counted to average lifetime income.

Unless those persons who now have minimum coverage reenter the labor market and work the requisite number of additional quarters, they will lose their insured status. In other words, for the next ten years we will deny benefits to persons previously told they were fully insured.

Because more years will be counted, workers who leave the labor force because of ill health, whether or not they ultimately recover and go back to work, will always suffer a reduction in the average wages on which their social security benefit will be based. A worker who does not recover and must take an age 62 actuarial reduction will receive for the rest of his life only fifty-five percent of a full benefit. That supposed full benefit will, under the Reagan plan, be further reduced by a change in how a benefit is computed after lifetime wages are averaged.

A year ago I opposed the Disability Amendments which ultimately became law as I believed the benefit reductions were far more severe than was necessary to prevent depletion of the Disability Insurance Trust Fund. The ink was hardly dry on the new Act when it was found that the Disability Trust Fund was in surplus. A portion of the FICA tax set aside for disability benefits was temporarily reallocated to the Old Age and Survivors Insurance Trust Fund late last year. Now it is proposed that a percentage of the disability insurance tax be permanently allocated for retirement and survivors' benefits. Left alone, with no changes in the program, the Disability Insurance Fund, under intermediate assumptions, is secure for the next seventy-five years.

I believe the need for the Reagan social security package is as over exaggerated as disability legislation was a year ago. Those who would totally dismantle social security if they were able to do so are using a combination of scare tactics, Reagonomics, and insults to those disabled persons who would work if they could to drastically reduce the protection the social security law now offers workers and their families.

Thank you, Madam Chairman, for the opportunity to appear here today.

Ms. OAKAR. Thank you very much, Congressman.

Congresswoman Schroeder.

STATEMENT OF HON. PATRICIA SCHROEDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mrs. SCHROEDER. I really want to thank you for doing this. I feel we are preaching to the choir. I can name some people on the House floor that I wish were here but I won't do that. I think it would be considered improper.

This is something I know you have been concerned about for a long time. I have cosponsored your bills and all of us in this room have worked very hard on your issues. Our biggest problem is how we get the message out to the people.

I am here as one of the cochairs of the Congresswoman's Caucus. The other cochair has just arrived.

I would like unanimous consent to put in the record a formal statement. I don't see any need to go through it line by line.

I was sitting here thinking what in the world I could say to this country right now. I wish there were some way we could have hung over the Social Security Administration building a giant sign saying "Every mother is a working mother." As you look at the administration's proposals, it is as if they think if you are only a mother, you obviously haven't been working, so why do you deserve any credit?

New reports coming out saying the feminization of poverty is one of the most critical issues this Nation is going to face in the eighties.

The feminization of poverty has become of a phenomenal magnitude. We still live with that wonderful media image that women are "taken care of" so why would they need a Federal program. I guess we can go ahead and cut their benefits.

Just a few of the statistics I would like to throw out: Of the elderly living alone relying totally on social security, 4.1 million of those are women and 1.1 million are men. It is almost a 4 to 1 ratio.

We can say, didn't they know social security was just supposed to be a supplement? Why didn't those women go out and invest in stocks and bonds or real estate?

How can we feel sorry for them? Baloney. Look at what we told them from the time they were in school: we told them they didn't need to worry about their finances, that they were the nurturers, that they were to raise families.

That 4 to 1 ratio is absolutely devastating when you see women living alone, relying totally on social security and what is their average daily allotment? It is $6.95 a day.

If someone can tell me how you can live in 1981 in the United States of America with any dignity for $6.95 a day, I'll be astounded.

I think the real issue is that people have not realized what women have done for the social security system. There are two groups. First are the homemakers who have done what we as a society have told them to do, only to find out that the joke is on them, that they are not covered by social security.

We don't prepare them education-wise. We don't tell them that the statistics say that 1 in 10 of them are going to have to work sometime in their lives; that most women are only one man away from poverty.

We haven't told them those hard facts. We should have, because when we suddenly break the news to them at 65 it's a little rough. I think that we as a society should be faulted. Those are not the people on whose backs we should be balancing the budget.

The other group of women are those who have been in and out of the work force. Many who are married and contributed while they were in the work force because they were required to will never get a dime for that contribution. Most of them will be claimed as dependents of their husbands. So women have really been keeping the social security system afloat by contributing and never being able to get benefits in their own right.

I am shocked to hear that the administration is not considering letting general revenues to bail out the social security system. It is the Congress, financing benefits from social security that should have come from general revenues that got the system into trouble. To say you are not going to deal with that, to cut benefits instead, is an awful thing to do to people who relied on us, to people who had faith in the Government.

If this happened in the private sector you could sue. It is breach of a contract. Its impact on women is really devastating and the Congresswoman's Caucus is terribly concerned.

I thank you for having the hearings and I hope that more people can focus on what is really being proposed.

[The prepared statement of Congresswomen's Caucus cochairs Patricia Schroeder and Margaret M. Heckler follows:]

PREPARED STATEMENT OF CONGRESSWOMEN'S CAUCUS CO-CHAIRS REPRESENTATIVE PATRICIA SCHROEDER AND REPRESENTATIVE MARGARET M. HECKLER

As co-chairs of the Congresswomen's Caucus, Rep. Heckler and I are pleased to have the opportunity to speak before the Task Force on Social Security and Women. We commend the Task Force and Chairwoman Mary Rose Oakar for their efforts to highlight the economic vulnerability of older women in America and the extent to which they depend on Social Security in their old age.

Certainly it is important to ensure the solvency of the Social Security system, and we commend the Administration for its willingness to tackle this difficult issue. Nevertheless, we are concerned that the proposed changes in Social Security will compound the existing inequities against women in Social Security—inequities that the Congresswomen's Caucus has been concerned about since its inception and that will worsen the already precarious financial situation of women nearing their retirement years.

Older women are the fastest growing poverty group in America. Two out of every three poor older persons are women. Two out of five older black women are poor. Millions more aged women—both white and black—subsist just above the officially defined poverty level.

The economic distress of older women is not necessarily the fault of Social Security. Nevertheless, Social Security is the only source of income for the majority of older women. Among the elderly living alone, for example there are 4.1 million women—and 1.1 older men—whose only income is their monthly Social Security check. The benefits of these women amount to an average of only $6.95 per day.

The proposed cuts in Social Security will undermine the tenuous hold that many women have on economic self-sufficiency and dignity in old age.

Let's look, for example, at the 62-year-old single woman who is ill and tired after 40 years behind a sales counter. Even now, when she can expect 80 percent of her full retirement benefits—which works out to around $200 a month—she is hardly on easy street if she retires at 62. Under the proposed change her monthly benefits for life—aside from the cost-of-living increases will amount to about $138 per month. Unless she has significant other income—and few single older women do—this virtually insures that she will join ranks of the poor. With increasing health limitations and job discrimination against older workers, there is not much chance that she can supplement her meagre retirement income with earnings from a job.

If this older worker were a man, the wage base on which retirement income was based would be considerably higher, and consequently, the retirement benefits would be substantially greater. It has been pointed out many times, but bears repeating: women earn an average of only 59 to 60 cents for every dollar that men earn. Since the benefits of a single working woman are calculated on these lower earnings she will receive a much lower Social Security income than a male worker.

Social Security was designed for the family with a wage earning husband who worked with few interruptions and who married—and stayed married "forever"—to a wife who remained at home, kept house, raised the children and could depend upon her husband for a paycheck and—ultimately—for retirement income.

It is hardly news that this pattern no longer fits in millions of cases. For one thing, 50 percent of all marriages today can be expected to end in divorce. So let us look at the situation of the older divorced woman. The middle aged and older divorced woman is undoubtedly better off under Social Security today than she was before the Congresswomen's Caucus pushed through the reform that made her eligible for spouse's benefits after a decade of marriage rather than after 20 years. But the proposal to cut retirement benefits drastically for early retirees would put the older divorced woman at the mercy of an ex-husband who is unlikely to give her needs a very high priority. Without consulting her, he could decide on early retirement. He might even have a nice private pension for himself. But—if he were an average wage earner—his ex-wife's Social Security benefits would amount to a mere $123.40 a month.

Rep. Oaker has done an outstanding job in highlighting the Social Security inequities that exist today against homemakers. The proposed change in benefits for early retirees will further aggravate the plight of many of these women, 70 percent of whom are likely to outlive their husbands. The widow of an average wage earner early retiree could expect a widow's benefit of less that $3,000 a year—about one fifth of her husband's preretirement earnings.

We are also concerned about the impact of the proposed changes in eligibility for disability coverage. Even now, because of work histories interrupted for raising

families, it is more difficult for many women than for men to accumulate the quarters required for disability coverage. And in this connection, it is worth noting that it is far more difficult for women to get private disability insurance.

These are some of our concerns. But we are also dismayed that none of the Administration's proposals addresses the systematic inequities against women. We urge the Congress and the Administration to be mindful that even today, Social Security is an inadequate or scarcely adequate "safety net" for too many millions of American women—especially older women.

Ms. OAKAR. Thank you very much.

We will proceed now with Congresswoman Peggy Heckler from Massachusetts, who is also our cochair of the Congresswomen's Caucus.

Thank you very much for being here.

STATEMENT OF HON. MARGARET M. HECKLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mrs. HECKLER. Madam Chairman, I would like to submit a statement for the record and would simply like to make some basic points on the issues that this committee is facing.

I would like to give you high commendation for highlighting the questions of social security and the inequities against women, and I think, frankly speaking, one of the main values of the hearing today will be to point out the really serious problems in the social security system and how it affects women in general.

I personally am not supportive of the administration's changes in the system. I think that they definitely compound some of the existing problems without providing answers or solutions.

However, I believe that in fairness we have to indict our colleagues and the Congress for not dealing with the social security system as it relates to women. For several years with the changing demographics of America, with more women in the work force, the system as it was originally designed, became more inequitable, more unfair.

In 1938, when the social security law was passed, the nuclear family existed, the dependent spouse was indeed the average woman in America.

The average American woman is in the work force today and whatever job she may hold, whether a salesperson or a factory worker or a secretary—whatever—she could be a doctor or a lawyer—the fact is she is in the work force and at the lowest levels of society.

When the social security payments are withheld from her income on a weekly basis, she is contributing to the social security system. However, the system that was devised in 1938, by 1981 for the working woman of America who is married, that system is perpetuating a ripoff. The funds that she has contributed are not going to be returned to her.

She has only the benefits of the spouse unless she chooses to select benefits on her husband's income.

I feel, frankly speaking, that a system that is built on such incredible inequities against working women in America has to be reevaluated across the spectrum and not patched up.

We are aware of the serious financial problems of the social security system but, frankly, Madam Chairman, I would say except for your leadership on the subject, there has been no focus in this

Congress on the underlying problems as they exist in the system and remedies that will effect justice for women.

The working woman's funding is still absorbed into the general pool of money and it is never returned to her. I would suggest in deliberations of this subcommittee and task force you not only address the questions of the current proposal but the underlying and critical discriminatory provisions of law so that while we look at social security—and indeed we must—we will consider a broad spectrum of options which will address not merely the fiscal crises of the moment but the underlying problems of inequity and frankly face them with some courage.

I feel that the issue of the absorption of the working woman's contribution should be addressed. She should either be repaid her contribution, if she is going to elect to receive benefits as a spouse, or the homemaker should be given social security in her own right thereby equating the contribution of each, and then one could receive benefits based on a system that reflects the working woman and the woman of America in the 1981 role model.

I would hope this task force will address these questions as well as the disability issue which is one of the most serious weaknesses of the current system and of the changes in the administration proposals.

I would say that, frankly speaking, the issue of the homemakers' benefits and her rights, the issue of the absorption of funds of the working woman who never is repaid and frankly enriches the country to her own detriment as she goes through the working system on a weekly basis—I think these are fundamental problems that have to be addressed and hopefully this task force will not just look at the proposals of today but will bring to the Ways and Means Committee and to the Senate Finance Committee the issues of women's equity under the social security law that have been the subject of testimony for a decade at least and never the subject of serious consideration in the taxwriting committees of this Congress.

The time has come to look at the overall scope and the underlying problems and propose not only a new structuring of the system perhaps that addresses the problems and the present crises but also addresses the totally new and more relevant concept of the economic position of women in the work force and men and women in the society.

Ms. OAKAR. Thank you very much, Congresswoman Heckler. I want to thank you for your leadership not only in Congress but in our Congresswomen's Caucus as well. Thank you very much for being here.

We have our first witness, Mr. Robert Myers, the Deputy Commissioner for Policy of the Social Security Administration.

I am joined on this panel by three of my distinguished colleagues on the Aging Committee and I would like to call on them for a brief statement before Mr. Myers speaks.

Let me call on Congressman Frank, who is a very fine member of our Aging Committee.

STATEMENT OF REPRESENTATIVE BARNEY FRANK

Mr. FRANK. Thank you, Ms. Oakar, and I want to congratulate you for your initiative here and make a couple of general statements.

First of all, I was glad that our colleague, Mrs. Schroeder, alluded to the argument that is advanced that people shouldn't be expecting to be making a living off social security.

It was intended as a supplement. The fact is that the economic history of this country belies that argument. For one thing, we have a lot of people in this country who are now retired who worked very hard for a very long time with the expectation they were going to get a private pension.

Seven or eight years ago, Congress recognized the private pension system of the country in its totally unregulated state was riddled with unfairness and inequity and unreliability. The result of that was ERISA.

So the fact is as a matter of national policy we have acknowledged that many people who had the legitimate expectation of a pension never got one. They were people whose pensions were simply merged. They worked 18 years with one company and 14 for another. One company went bankrupt, the company went south or the company went to Taiwan.

It is a matter of national policy that many people have no pensions through no fault of their own and we are now dealing with a population that is suffering from a pension system that cried out for some kind of protection.

Second, we also know that for the working lives of most of the women who are today retired, America was a severely discriminatory place on sexual grounds.

The women who worked for the lowest possible wages, far lower than they were entitled to, far lower than their male counterparts.

Since the social security income is based in part on what people earned when they are working, past discrimination is being perpetuated by payments which reflect the past inadequacy.

Of course, it is true as well that we have the paradox particularly now when we are being told that family life is a wonderful thing and we ought to protect it, that this administration, which argues that, appears to be unwilling to do very much to give recognition to the role that the homemaker plays in the family unit, and certainly there ought to be some recognition given to that, and I agree with Mrs. Heckler on that point.

But we ought to recognize that all of those things are going to cost money, and I think the money is there. The social security tax system itself is a regressive one and I don't think it ought to be increased.

I think it is becoming increasingly clear that equity in this area is going to require tapping general revenues at least in the medicare part, and the argument—and we heard this from Secretary Schweiker a couple weeks ago—that says there is somehow an impenetrable iron curtain between general revenues and social security is an argument that says we can subsidize tobacco, we can subsidize the Clinch River Breeder Reactor, we can spend God knows how much on 40-year-old battleships to do God knows what,

but we can't use any of that money to try to protect the rights of elderly people to retire in dignity.

General revenues offer a source not necessarily by raising taxes but by looking at some of the ways in which we continue to waste money and subsidize people who don't need it.

I agree with my colleague from Massachusetts who just spoke. There are claims of working women that have to be recognized, but it will cost revenue to do that, and I don't think we can get it from the social security tax anymore. We have to go into general revenue.

I do not accept the argument of the administration that it is somehow illegitimate to compare the moral worth of subsidizing tobacco and subsidizing the Clinch River Breeder Reactor and building the Tennessee-Tombigbee Waterway, that that is sacrosanct but we can go ahead and cut back the benefits and deny benefits to working older people.

I think the direction we have to move in is a sensible use of general revenues to deal in part with the medicare program.

Thank you.

Ms. OAKAR. Thank you, Congressman Frank.

Congresswoman Fenwick.

STATEMENT OF REPRESENTATIVE MILLICENT FENWICK

Mrs. FENWICK. Thank you, Madam Chairman.

I would like to echo some of what Congressman Frank has said, as I so often do.

How do we continue what is popularly, and I think very correctly called, pork barrel, year after year, Tombigbees one after another, and find it so difficult to face questions like this?

I think if we are honest and searching in our look at social security we have to say something. It pretends to be insurance and it isn't. It isn't actuarily sound and never has been. It was never even started on such a basis.

There is the problem of a young person entering the work force paying over $6 out of every $100 and asking for no coverage for anybody but himself or herself.

When that person decides to marry, no extra charge is made. When that person has four or five children, no extra charge is required from that person for the coverage he is now demanding. It is not, in other words, actuarily sound.

We have created something, I am told—and I knew Frances Perkins well—that the original purpose was to urge people to retire, to encourage them to retire, in a time of very, very high unemployment. That was the purpose.

It was not, originally, meant to be a full pension on which people would depend.

Congress cannot dodge its responsibility for the position in which we find ourselves now because Congress is responsible for what it has done.

The question is what are we going to do about it?

I, like Congressman Frank—and he knows because he was there—proposed we should perhaps turn to general revenues. There may not be any other answer out of this dilemma. In fact, I suggested that 2 years ago before Congressman Frank had joined

us but I was universally reprimanded as proposing something very dangerous, an unthinkable way out of the dilemma in which we find ourselves.

I do propose, and I am condemned also for this, that we should have a sliding scale of fees for medicare. I see absolutely no reason why people with large incomes should not pay a higher part A/part B payment than those who have very little money.

What are we doing? How do we possibly continue this system of taking care of those who have very large incomes on the same basis on which we take care of the indigent, when we are considering that we may have to cut back on those who have absolutely nothing or very little.

We need an honest and courageous look at social security from the very root up. I don't think we are going to solve it with little adjustments here and there. I just don't think we can.

I think we are going to have to examine the whole system right from the start. I don't know, Madam Chairman, if this is the time or place to bring all this out but we have to talk about it sometime.

Ms. OAKAR. Sure. We are going to have a lot of witnesses who will bring some of these points out.

Mrs. FENWICK. I would be interested to hear some of the more competent people in the field—which I am not—if they have any opinion on these ideas.

Ms. OAKAR. Thank you very much, Congresswoman.

Congressman WORTLEY.

Mr. WORTLEY. Madam Chairman, I came to listen. I yield back the balance of my time.

Ms. OAKAR. Thank you very much. I wish to submit the prepared statement of Congressman Harold Hollenbeck for the record at this time. Hearing no objections, so ordered.

[The prepared statement of Representative Harold C. Hollenbeck follows:]

PREPARED STATEMENT OF REPRESENTATIVE HAROLD C. HOLLENBECK

Mr. Chairman, it is very appropriate this morning that we take a close look at the proposed social security changes' impact on women. Women now constitute 43 percent of the labor force, and without the taxes paid by working women, it is obvious that the social security trust funds would be in even worse shape than they are now.

As previous testimony gathered by the Committee's Task Force on Social Security and Women has proven, women in the workforce and in retirement are not faring particulary well today. Two of every three retired women survive on incomes of less than $4,000 a year. Almost 75 percent of all low income elderly are women. If many of the proposed changes in social security are enacted, women could find themselves in even worse shape.

Under the present budget climate, our efforts to deal with the inadequacies of the current social security benefits structure are even more difficult. While we are striving to correct inequitable provisions in past laws toward women, we must also work hard to ensure that new changes do not merely compound existing problems.

Several of the suggested changes will impact most dramatically on women. It is important for our committee to truly identify the actual severity of the current trust fund crisis and to determine methods of dealing with this problem without undermining older Americans' faith in the system.

We have before us today in the Congress literally dozens of proposals which all claim to solve social security's financing problems. We must accept the grave challenge of deciding the most effective and least damaging alternatives. I believe this committee, by working together, can meet this challenge.

Ms. OAKAR. Our next witness is Robert Myers who is the Deputy Commissioner of Social Security for Programs for the Administration.

Mr. Myers, you have a very fine statement that I have had the opportunity to read. You may summarize the statement, or proceed in any way you would like.

STATEMENT OF ROBERT J. MYERS, DEPUTY COMMISSIONER OF SOCIAL SECURITY FOR PROGRAMS, SOCIAL SECURITY ADMINISTRATION

Mr. MYERS. Thank you, Madam Chair, and members of the task force.

I would like to ask permission to have my full statement put in the record and I will attempt to summarize it very briefly.

Ms. OAKAR. Your statement will be received for the record.

Mr. MYERS. Social security is teetering on the edge of bankruptcy. The Old-Age and Survivors Insurance system will not have enough funds to pay benefits after mid-1982.

The cumulative trust-fund deficit would, under worst-case economic assumptions, be $111 billion during the next 5 years.

Over 75 years, there is an average deficit of 1.52 percent of taxable payroll, equivalent to a lump sum of $1.5 trillion.

The system also faces a crisis in public confidence.

Stopgap approaches will not result in permanent solutions. The only approach that will work involves bold, decisive actions which go to the root of the problem—the overexpansion of the program over the years.

There are only three choices available: restrain the growth of benefit outgo, increase payroll taxes, or turn to some other source of revenue.

Raising the tax rates to cover whatever the current program requires would be both unfair to current taxpayers and a serious drag on the economy.

The apparent alternative of turning to general revenues for additional financing is not really a viable option. There are no excess general revenues to turn to for social security. Any general revenues would have to come from new taxes of other types.

Additional taxes would need to be levied on the same people who now pay social security taxes. The remaining option of slowing the growth of the program is the only real choice.

The administration's initial budget proposals were a first step. Subsequently, we have developed further proposals to reform the program. These are designed to overcome the serious funding problems by eliminating excessive incentives to claim benefits early, by removing penalties for continued work efforts, and by lessening the emphasis on the social-adequacy aspects of the system at the expense of its basic purposes.

These proposals are our well-considered recommendations, but we will work with all interested parties to develop a reasonable proposal to deal with the problems. However, we are committed to the following principles:

One, preserving the integrity of the trust funds and the basic benefit structure that protects older Americans.

Two, holding down the tax burdens on current workers.

Three, eliminating abuses and anomalous features.

Four, financing the permanent benefit provisions solely from visible payroll taxes, and not from general revenues, which in reality involve other, hidden taxes.

The proposals apply equally to men and women and do not discriminate between women who work for pay and women who fill the traditional role of homemaker.

Some assert that the package has a greater impact on women. They argue that, since women generally have both lower wages and more breaks in service than men, these proposals would tend to produce lower benefits for women.

Speaking for myself, I believe that discrimination in the workplace and cultural differences between the lifestyles of men and women are not problems which social security can or should solve. Remedies for any such problems should come from changes in the underlying causative factors.

I might state for the record that, for many years, I was an advocate of equal treatment of men and women under social security, before this was achieved. I am personally convinced that, currently, as a result of both legislative changes and court decisions, there is such equal treatment in the sense that the same benefit amounts are payable under identical demographic and economic circumstances.

The fact that the actuarial value of the benefits payable may differ, one way or the other, depending upon demographic or economic elements, is a different question than that of equality of treatment or equity.

The fact that a married female worker does not collect benefits on both her own earnings record and that of her husband is not unfair or unequal treatment, because exactly the same situation prevails for married male workers. The payment of only the larger benefit amount, in essence, is the natural result of the social adequacy nature of the program.

Although certain excessive or nonessential benefits will be reduced or eliminated under our proposal, the basic core of protection is preserved. For example, benefits for aged widows would be maintained unchanged.

The administration's proposals have thus maintained the most vital social-adequacy elements of the program, like widow's benefits, while reducing other elements that are less vital or are adequately covered by other programs. The proposals will not only put social security back on sound financial ground, but also will be able to lessen, in the future, the taxes required to support the system.

Briefly, the proposal would restore social security to programmatic and financial soundness by:

One, encouraging workers to stay on the job at least until the traditional retirement age of 65.

Two, lowering future replacement rates by moderating, for 6 years, the indexing of the initial benefit formula. This would be done to adjust for benefit overliberalizations in the early 1970's, which substantially exceeded increases needed to keep pace with changes in the price level.

Three, reducing the opportunity for windfall benefits—that is, relatively high benefits for persons who spend most of their work-

ing lifetime in noncovered employment and only a short time in covered work.

Four, relating disability benefits more closely to recent work history and medical condition.

Five, reducing the social-adequacy—or welfare-oriented—elements, which duplicate other programs and have been overemphasized in recent years.

These reforms would have virtually no impact on the 36 million beneficiaries now on the rolls or on the several million persons now aged 62 or over who are eligible for benefits but still working.

The first proposal would change the benefit computation point from age 62 to 65.

The computation point was lowered to age 62 for women in 1956, when reduced benefits were made available to women workers at age 62. When this was done for men in 1961, such change was not made.

The 1972 act inappropriately provided the age-62 computation point for men, instead of conforming the computation closing age for women to that for men.

The second proposal would increase the permanent reduction made in benefits for retirement at ages 62 to 64. Persons retiring at age 62 would get 55 percent of what they would get at age 65, rather than 80 percent as now. The same reduction would also apply to spouse's benefits. No change would be made in the reduction provision affecting widow's benefits.

This proposal should be looked at in terms of the incentive for deferred retirement that it offers. For each year of continued work at ages 62 to 64, an additional 15 percent of the basic benefit will be payable.

Third, benefits would not be paid for children of workers getting retirement benefits before age 65.

This would remove another incentive for people to claim benefits before 65.

The phase-out of the earnings test for people aged 65 and older would remove a disincentive to continue working beyond age 65. Under the proposal, the exempt amount for this group would be raised to $10,000 in 1983, $15,000 in 1984, and $20,000 in 1985. In 1986, the earnings test would be eliminated completely for those aged 65 and over. This will remove a strong disincentive for this group to continue working.

We believe that our senior citizens should not be penalized because they choose to remain in or reenter the work force, thereby continuing to contribute their valuable skills to our Nation's productive effort, while at the same time supplementing their benefits.

We propose the elimination of windfall benefits for persons who have been in noncovered employment for most of their working lifetimes, but who have sufficient covered employment to qualify for social security benefits.

Our proposal would use a different formula to compute benefits for persons with pensions from noncovered employment—so as to eliminate the heavy weighting in the current benefit formula. This would remove the unintended advantage now provided for persons who have substantial pensions from noncovered employment.

The administration is proposing four changes in the disability benefits area, which are designed to restore the program more nearly to its original intent and scope—by relating benefits more directly to work history and medical condition.

Under current law, a worker may qualify for disability benefits based either on medical factors alone or on a combination of medical and nonmedical, vocational factors, such as age, education, and work experience.

The present procedures require an evaluation of vocational and other nonmedical factors in half the cases; this determination is very subjective and makes it impossible to reach consistent decisions.

The use of vocational factors goes far beyond the original intent and introduces a degree of subjectivity that is undesirable. The definition of disability should be returned to the original intent.

Under the original provisions, "permanent" disability was clearly intended by the phrase "of long continued or indefinite duration." A prognosis requirement of only 12 months was added in 1965. To return to the original intent so that benefits will not be awarded to individuals with temporary disabilities, we propose that a person's disability must be expected to last 24 full months.

Under another proposal, the waiting period would be restored to the 6 months which it was when the program began.

Under current law, generally workers may qualify for disability benefits if tney have about 5 years of covered work in the 10 years preceding disability.

We propose that this be changed so that a person would need about 7½ years of covered work in the 10-year period. Increasing the amount of work necessary to qualify is in line with the basic purpose of the program—to provide benefits only to people who have a substantial recent attachment to the work force.

The disability maximum family benefit should extend to retirement and survivor cases. This will more nearly assure that family benefits will not exceed previous net take-home pay.

Under present law, the three-step benefit formula is adjusted for people newly eligible for benefits each year by increasing the bend points—the dollar amounts that determine the bands of average earnings to which the three benefit percentage factors apply—by the annual increase in average wages.

Under the proposal, for each of the adjustments for new eligibles in 1982-87, the annual adjustments would be based on 50 percent of the annual wage increase. Replacement rates for new cohorts of beneficiaries will then be restored to the levels generally intended by the Congress in the 1950's and 1960's.

We propose to shift the effective date for the automatic cost-of-living increases to the beginning of the fiscal year. The full amount of the 1982 increase would be paid, but with a 3-month deferral. Thereafter, increases would occur each October. This is the only change with any impact on current beneficiaries.

We propose taxing and crediting under social security all sick pay made by an employer for the first 6 months of illness. Sick pay made more than 6 months after the employee last worked for the employer would continue to be exempt.

Assuming the enactment of these reform proposals, and those included in the administration's budget, we will have a social security system that is actuarially sound, both in the short-range and over the long-range future. The program will develop a reasonable financial balance in the short run under estimates based on the economic assumptions based on the administration's program for economic recovery.

Even under pessimistic assumptions, our proposals would permit unimpeded payment of benefits although the Trust Fund balances would not begin building up to desirable levels.

The present tax rate for employers and employees of 6.65 percent each is scheduled to go to 7.05 percent in 1985 and 7.65 percent in 1990. If these proposals are enacted, the 1985 tax rate could be 6.95 percent, and the 1990 tax rate could be 6.45 percent.

If the economy improves at a more rapid rate, as we anticipate it will under the President's program for economic recovery, the tax rates could be further reduced.

The administration's proposals are reasonable and practical solutions. They would not be the first proposals adopted by Congress which reduced the benefit level or structure. Benefits were cut back even in the early days of the program—for instance, in 1939, when lump-sum death payments were sharply reduced. In 1977, and again in 1980, the Congress made changes to reduce and control the level of benefits—in 1977 by stabilizing the overall replacement rates at a lower level than was then currently payable, and in 1980 by putting a ceiling on the family disability benefits. But these changes did not completely solve the problem. Nor did the large increase in taxes enacted in 1977 solve the problem. Both actions alleviated the situation, but did not do the entire job of placing social security on a sound and viable basis over both the short run and the long range, as we now propose.

We have already begun working with congressional leaders to develop mutually agreeable solutions to the financing crisis. While there may be room for debate over the details of our proposals, we strongly believe that any alternatives must meet our fundamental objectives mentioned earlier.

Thank you, Madam Chair.

[The prepared statement of Mr. Myers follows:]

PREPARED STATEMENT OF ROBERT J. MYERS, DEPUTY COMMISSIONER OF SOCIAL SECURITY FOR PROGRAMS

I appreciate the opportunity to be here today to discuss the Administration's proposals to restore the financial soundness of the Social Security system.

Social Security is teetering on the edge of bankruptcy. We are facing the most serious crisis in the 46-year history of the Social Security system. The facts and figures show that the Old-Age and Survivors Insurance portion of the system will not have enough funds on hand to pay benefits at some time after mid-1982.

As things stand, without changes, the cumulative Social Security trust-fund deficit would, under pessimistic or worst-case economic assumptions, be as high as $111 billion during the next five years. Over the long term—75 years—there is an average deficit of 1.52 percent of taxable payroll under the intermediate—cost estimates in the 1980 Trustees' Report. The equivalent lump-sum present value of this deficit over the next 75 years is about $1.4 trillion. Under more pessimistic assumptions, the deficit is much worse—an average deficiency of 6.17 percent of taxable payroll.

The system also faces a crisis in public confidence. The American people have been told repeatedly over the last several years that Social Security will not go

bankrupt. Yet, in the same period, the actuarial reports have shown the prospects of deficits and the threat of bankruptcy. The question is how to meet these crises.

It has become clear that stopgap and band-aid approaches will not result in permanent solutions. The only approach that will work involves bold, decisive actions which will go to the root of the problem—the over-expansions of the program over the years, in combination with the reversal of the historical relationship of wage increases being significantly larger than price increases.

In developing the Administration's Social Security proposals, we recognized that none of the solutions to the system's problems will be easy, popular or painless. There are really only three choices available: restrain the growth of benefit outgo, increase payroll taxes, or turn to some other source of revenue.

Raising the Social Security tax rates to cover whatever the current program requires would be both unfair to current taxpayers, who have to bear the tax burden, and a serious drag on the economy. The apparent alternative of turning to general revenues for additional financing is not really a viable option. The current congressional budget process makes it very clear that there really are not any excess general revenues to turn to for Social Security. Any general revenues for this purpose would have to come from new or increased taxes of other types. This would mean that additional taxes would need to be levied and be paid by—and be a burden on—the same people who now pay Social Security taxes. The remaining option of slowing the growth of the program is the only real choice.

The Administration's initial budget proposals were a first step toward that goal. They are also an essential part of the President's Economic Recovery Program. In addition, subsequent to these proposals, the Administration has developed further proposals aimed at reforming the program. These proposals are designed to overcome Social Security's serious funding problems by eliminating excessive incentives built into the system to claim benefits early, by removing penalties for continued work efforts, and by lessening the emphasis on the social-adequacy or welfare aspects of the system at the expense of its basic purposes. These proposals are our well-considered recommendations but they are not carved in stone. We are prepared to work with all interested parties to develop a reasonable set of proposals to deal with the fundamental problems. However, we are committed to the following principles:

(1) Preserving the integrity of the Social Security system—its trust funds and the basic Social Security benefit structure that protects older Americans.

(2) Holding down the tax burdens on current workers supporting the Social Security system.

(3) Eliminating the abuses and the anomalous features in the current system.

(4) Financing the permanent, ongoing benefit provisions solely from visible payroll taxes, and not from general revenues, which in reality involve other, hidden taxes.

In designing these proposals we attempted to be evenhanded so that they would not have undue impact on any one group of beneficiaries. The proposals apply equally to men and women and do not discriminate between women who work for pay and women who fill the traditional role of homemaker.

Some assert that the package has a greater impact on women. They argue that since women generally have both lower wages and more breaks in service than men, these proposals would tend to produce lower benefits for women than men. Speaking for myself, I believe that discrimination in the work place and cultural differences between the lifestyles of men and women are not problems which Social Security can or should solve. Remedies for any such problems should come from changes in the underlying causative factors.

I might state for the record that, for many years, I was an advocate of equal treatment of men and women under the Social Security program, before this was achieved. I am personally convinced that currently, as a result of both legislative changes and court decisions, there is such equal treatment in the sense that the same benefit amounts are payable under identical demographic and economic circumstances. The fact that the actuarial value of the benefits payable may differ, one way or the other, depending upon demographic elements such as longevity or economic elements such as length of attachment to the paid labor force or earnings levels, seems to me to be a different question than that of equality of treatment or equity.

The fact that a married female worker does not collect benefits on both her own earnings record and that of her husband is not unfair or unequal treatment, because exactly the same situation prevails for married male workers. The payment of only the larger benefit amount, in essence, is the natural result of the social adequacy nature of the program, which is not based entirely (or largely) on individual-equity concepts.

However, while certain excessive or nonessential benefits will be reduced or eliminated, the basic core of protection has been preserved. For example, benefits for aged widows would be maintained unchanged. Present-law reduction factors for widows who claim benefits before age 65 would not be increased in recognition of the fact that long-time homemakers widowed late in life often cannot find suitable employment. Additionally, a widow age 62 or over would continue to be assured that she would get no less than 82.5 percent of her deceased husband's full benefit even when he claimed reduced benefits at age 62.

The Administration's proposals have thus maintained the most vital social-adequacy elements of the Social Security program, like widow's benefits, while reducing other elements that are less vital or are adequately covered by other programs. With the Administration's package of proposals, we will not only put Social Security back on sound financial ground, but also we will be able to lessen, in the future, the taxes required to support the system.

I would now like to discuss the specifics of the proposal. Briefly, it would restore Social Security to programmatic and financial soundness by:

(1) Encouraging workers to stay on the job at least until the traditional Social Security retirement age of 65.

(2) Lowering future replacement rates (that is, the initial benefit as compared with recent preretirement earnings) by moderating, for 6 years, the indexing of the initial benefit formula computation. This would be done in order to adjust for benefit over-liberalizations in the early 1970's which substantially exceeded increases needed to keep pace with changes in the price level.

(3) Reducing the opportunity for "windfall" benefits—that is, relatively high benefits for persons who spend most of their working lifetime in noncovered employment and only a short time in covered work, especially as compared with low-wage earners who have spent a lifetime contributing to the system.

(4) Relating disability benefits more closely to a worker's recent work history and medical condition.

(5) Reducing the social-adequacy (or welfare-oriented) elements which duplicate other programs and which have been over-emphasized in recent years.

I would emphasize that these reforms would have virtually no impact on the 36 million beneficiaries now on the rolls or on the several million persons now aged 62 or over who are eligible for benfits but still working (or the age-62 spouse of such a worker).

Now, I will describe how the Administration's proposals would meet these objectives.

ENCOURAGEMENT OF CONTINUED EMPLOYMENT

A. Computation Period: The first proposal would change the benefit computation point from age 62 to 65. Under present law, the period used to calculate the number of years on which average earnings for computing Social Security benefits are based ends when the worker reaches age 62. Under the proposal, the averaging period would be extended to the year in which the worker reaches age 65. There would be no change in the number of years of low earnings that can be disregarded under present law in calculating the average earnings.

The computation closing point was first lowered to age 62 for women in 1956 when reduced benefits were made available to women workers at age 62. When reduced benefits were made available to men in 1961, this change was not made.

The 1972 amendments inappropriately provided the age 62 computation point for men, instead of conforming the computation closing age for women to that for men. Restoring the basic period used in figuring a worker's earnings to age 65, rather than age 62, reinforces age 65 as the "normal" retirment age. Our proposal would underscore the value of working at least to age 65.

B. Early Retirement: The second proposal would increase the permanent reduction made in benefits for retirment at ages 62-64. Persons retiring at age 62 would get 55 percent of what they would get at age 65, rather than 80 percent as now. This is a reduction of 1¼ percent per month, instead of the ⅝ percent under present law. The same reduction that applies to the worker's benefit (1¼ percent per month) would also apply to the spouse's benefit. No change would be made in the reduction provision affecting widow's or widower's benefits.

This proposal should be looked at in terms of the incentive for deferred retirement that it offers. For each additional year of continued work at ages 62-64, an additional 15 percent of the basic benefit will be payable. A worker retiring at age 63 and 8 months would receive 80 percent of what he or she would get at age 65. Also, additional earnings during this period may increase the average earnings on which the worker's benefits are based.

C. Benefits for children of Early Retirees: Benefits would not be paid for children of workers getting retirement benefits before age 65. However, child's benefits would remain payable, as under current law, when the worker reaches age 65.

Currently, children under 18, or under 22 if in school, and disabled adult children, can receive benefits if a parent is getting a retired worker's benefit. Elimination of benefits for the children of retired workers under age 65 would remove another incentive for people to retire and claim Social Security benefits before age 65.

Thus, under these proposals, early retirement under Social Security will be a less attractive option than it is today and there will be greater positive incentives for people to remain in the labor force until, at least, age 65.

D. The Earnings Test: Another change—the phase-out of the earnings test for people age 65 and older—would remove a disincentive for people to continue working beyond age 65. Under current law, if the earnings of a beneficiary over age 65 but under age 72 (age 70 in 1982) exceed an annual exempt amount ($5,500 in 1981 and $6,000 in 1982), Social Security benefits are reduced $1 for each $2 earnings about that amount. Under the proposals, the exempt amount for this group would be raised to $10,000 in 1983, $15,000 in 1984, and $20,000 in 1985. In 1986, the earnings test would be eliminated completely for those aged 65 and over. There would be no change in the earnings test for those under age 65; as under present law the annual exempt amount for this group, now $4,080, would increase in the future as average wages increase.

The Administration's proposal to phase out the earnings test over a 3-year period for those aged 65 and over will remove a strong disincentive for this group to continue working. In effect, the present test operates as a 50-percent tax on earnings above the exempt amount, and such earnings are further reduced by Federal, State, and local income taxes, as well as expenses connected with working.

We believe that our senior citizens should not be penalized because they choose to remain in or reenter the work force, thereby continuing to contribute their valuable skills to our Nation's productive effort, while at the same time supplementing their Social Security benefits.

The proposal would increase Social Security costs by approximately $6.5 billion in 1982-86. However, there would be some increase in Social Security tax revenues as a result of additional people deciding to continue working after age 65. Moreover, there would also be an increase in Federal income tax revenue as a result of people continuing to work.

ELIMINATION OF WINDFALL BENEFITS

We also propose the elimination of "windfall" benefits for persons who have been in noncovered employment for most of their working lifetimes, but who acquire sufficient covered employment to qualify for Social Security benefits. Currently, it is possible for a person, such as a retired Federal employee who works in Social Security covered employment for only a few years, to receive disproportionately high Social Security benefits.

Our proposal would use a different formula to compute benefits for persons with pensions from noncovered employment—so as to eliminate the heavy weighting in the current benefit formula, which is intended for long-term, low-wage workers. This would have the effect of removing the unintended advantage that Social Security now provides for persons who have substantial pensions from noncovered employment.

DISABILITY BENEFITS REFORMS

The Administration is proposing four changes in the disability-benefits area which are designed to restore the Social Security disability program more nearly to its original intent and scope—by relating benefits more directly to history and to medical condition.

(1) The first change relates to the Social Security definition of disability. Under current law, a worker may qualify for disability benefits based either on medical factors alone or on a combination of medical and nonmedical, vocational factors, such as age, education, and work experience. The great majority of people (about 75 percent) who are awarded disability benefits qualify on the basis of medical factors alone. If both awards and denials are considered, the present procedures require an evaluation of vocational and other nonmedical factors in 50 percent of the cases; this type of determination is very subjective and makes it impossible to reach consistent decisions in all cases.

The present use of vocational factors in making determinations of disability goes far beyond the original intent of the Congress and introduces a degree of subjectivity that is undesirable in a national disability benefits system. We believe that the

definition of disability should be returned to the original intent. The revised definition of disability would apply only to people becoming entitled to disability benefits after 1981.

(2) The next change relates to the disability-prognosis requirement. Again, under the original disability benefit provisions, "permanent" disability was clearly intended by the phase "of long continued or indefinite duration." The provision for a prognosis requirement of only 12 months was added in 1965. To return to the original intent and assure that disability benefits will not be awarded to individuals with temporary disabilities, we propose that a person's disability must have lasted, or be expected to last, 24 full months. This would restore the disability program to its original purpose.

Temporary disability protection should, as was initially intended, be provided by other means such as sick-leave plans, private insurance, and State programs. This change would apply only to people becoming entitled to disability benefits after 1981.

(3) Under the third disability benefit proposal, the waiting period would be restored to the 6 months which it was when the program begun. Presently, there is a 5-month waiting period after a person becomes disabled before he or she begins receiving Social Security disability benefits.

(4) The fourth change in the disability program involves the insured status requirements. Under current law, generally a worker may qualify for Social Security disability benefits if he or she has about 5 years of work covered under Social Security in the 10 years preceding disability. We are proposing that this requirement be changed so that a person would need about 7½ years of covered work in the 10 year period in order to qualify. This proposal would be in addition to the budget proposal which would require that the worker have 6 quarters of coverage during the 13-quarter period preceding disability.

We are concerned that people are qualifying for disability benefits even though they have not demonstrated that they have a substantial recent attachment to the covered work force. Increasing the amount of work necessary to qualify for disability benefits is in line with the basic purpose of the program—to provide benefits only to people who have a substantial recent attachment to the workforce and who have suffered a loss of their livelihood because they have become disabled and unable to work.

REDUCTION OF WELFARE ELEMENTS

A. Benefits for Children of Early Retirees: I described earlier one proposal that is designed both to reduce excessive benefits and to help encourage people to remain in the labor force until at least age 65—namely not to pay benefits for children of workers getting old-age benefits until the worker has reached age 65.

B. Same Family Maximum of Benefits for Retirement and Survivor Cases as for Disability Cases: The disability maximum family benefit would extended to the retirement and survivor cases. The 1980 disability amendments changed the maximum family benefit, so that Social Security benefits for the disabled worker's family would not exceed the lesser of 85 percent of the worker's average indexed earnings or 150 percent of the worker's benefit amount (but not less than 100 percent of the worker's benefit). This limitation will more nearly assure that family benefits based on the worker's earnings will not exceed his or her previous net take-home pay. Applying the same maximum on family benefits to old-age and survivor cases would similarly assure that benefits for these cases would not be excessive in relation to the worker's previous take-home pay.

OTHER PROPOSALS

A. Benefit-Formula Bend Points: This proposal, which would phase in gradually over the next 6 years, would correct for past over-expansions of general benefit levels by ultimately reducing replacement rates—the ratio of the initial benefit to the earnings immediately before retirement—for future beneficiaries by an average of about 10 percent. Thus, the replacement rate for an average worker would be reduced from about 42 percent to 38 or 39 percent.

Under present law, the 3-step benefit formula is adjusted for people newly eligible for benefits each year by increasing the bend points—the dollar amounts that determine the bands of average earnings to which the three benefit percentage factors apply—by the annual increase in average wages. Under the proposal, for each of the adjustments for new eligibles in the six years, 1982-87, the annual adjustments would be based on 50 percent of the annual wage increase. By the end of this period, replacement rates for new cohorts of beneficiaries will be restored to the levels generally intended by the Congress in the 1950's and 1960's.

B. Fiscal-Year Benefit Increases: We are proposing to shift the effective date for the payment of the automatic cost-of-living increases from July to October—the beginning of the fiscal year. The full amount of the 1982 increase would be paid, but there would be a 3-month deferral. Thereafter, increases would occur each October. This change is the only one that will have any impact of current beneficiaries.

C. Coverage of Sick Pay: We propose taxing and crediting under Social Security all sick pay made by an employer for the first 6 months of illness. Under present law, sick pay within this 6-month period is taxed and credited only if it is not made under a plan or system established by an employer. Some employers have complained about the difficulty and expense of keeping records of sick pay for as little as 1 hour at a time, in order to comply with the legal provision that the sick payments be excluded from Social Security wage reports. Also, some employers do not understand current law and incorrectly report sick pay as wages—or, conversely, fail to report sick pay that is not paid under a plan or system. Sick pay made more than 6 months after the employee last worked for the employer would continue to be exempt from Social Security taxes.

CONCLUSION

Assuming the enactment of these reform proposals, and those included in the Administration's budget, we will have a Social Security system that is actuarially sound, both in the short-range and over the long-range future. The program is shown to be developing a reasonable financial balance in the short run under estimates based on the economic assumptions which result from the effect of the Administration's Program for Economic Recovery. Even under pessimistic assumptions, which do not take the Program for Economic Recovery into account, our proposals would nonetheless permit unimpeded payment of benefits although the Trust Fund balances would not begin building up to desirable levels.

Under these programs, and assuming interfund borrowing authority, the combined Social Security trust funds will not fall below 17 percent of expenditures under the worst-case economic assumptions. Under the Administration's expected economic conditions, the low point is 22 percent. It will be possible, even under worst-case economic assumptions, to have a smaller Social Security tax-rate increase in 1985 than that now scheduled and, in 1990, to actually decrease Social Security tax rates below the current level.

The present tax rate for employers and employees of 6.65 percent each is scheduled to go to 7.05 percent in 1985 and 7.65 percent in 1990. If these proposals are enacted, the 1985 tax rate could be 6.95 percent and the 1990 tax rate could be 6.45 percent. If the economy improves at a more rapid rate, as we anticipate it will under the President's Program for Economic Recovery, the tax rates could be further reduced.

The Administration's proposals are reasonable and practical solutions for an extremely difficult problem. They would not be the first proposals adopted by Congress which reduced the benefit level or structure of the Social Security program. There were instances of cutting back on benefits even in the early days of the program—for instance, in 1939, when lump-sum death payments were sharply reduced. In 1977, and again in 1980, the Congress made changes in the Social Security program to reduce and control the level of Social Security benefits—in 1977 by stabilizing the overall replacement rates at a lower level than currently payable, and in 1980 by putting a ceiling on the amount of benefits payable to the family of a worker drawing disability benefits. But these changes, difficult as they were, did not completely solve the problem. Nor did the large increase in taxes enacted in 1977 solve the problem. Quite obviously, both of these actions helped to alleviate the situation, but they did not do the entire job of placing Social Security on a sound and viable basis over both the short run and the long range, as we now propose to do.

If strong actions are not now taken, the system faces financial insolvency, and the economic security of the 36 million people who receive Social Security benefits will be threatened. Under the Administration's proposals, their future benefits will be paid, even under the worst-case economic assumptions.

We recognize that there are other possible ways to deal with the financial problems of the Social Security system. We have already begun working with Congressional leaders to develop mutually agreeable solutions to the Social Security financing crisis. I should emphasize that, while there may be room for debate over the specifics and details of our proposals, we strongly believe that any alternatives must meet our fundamental objectives mentioned earlier.

That concludes my prepared testimony. I will be pleased to answer any questions you may have.

Ms. OAKAR. Thank you, Commissioner.

I am glad that you were able to come today. I know you have been involved in the Social Security Administration for many administrations over the years and you certainly are an authority on this issue.

I want to return to something that many people feel should be done and I agree. That is to take a look at what social security is and has become before we discuss the issue of how social security relates to women, particularly older women.

I would like to ask you when we viewed social security under the umbrella of the budget as opposed to being viewed as a separate entity with a separate trust fund.

When did we change that law?

Mr. MYERS. Madam Chair, this was done in 1967, or 1968.

Ms. OAKAR. Were you working for the social security system at the time?

Mr. MYERS. I was Chief Actuary of the Social Security Administration at that time.

Ms. OAKAR. What was the rationale for the change?

Mr. MYERS. As I understand, the rationale was not put forward by the Social Security Administration but rather it was a general budgetary matter. The fiscal planners at that time believed that there should be the so-called unified budget, so that they could look at all the operations of the Government as a whole.

Ms. OAKAR. Wouldn't you agree, and I don't hold you responsible for that ill-conceived plan, that the social security system is indeed a separate trust fund, that it ought not to be buckled in with the budget which results in the use of some of those funds to balance the budget.

It is very, very unfair to those people that paid into the system to have their trust funds viewed as part of the overall budget.

Would you like to see it go back prior to 1967?

Mr. MYERS. Madam Chair, on this question I, agree completely with you that the four social security trust funds are separate trust funds. As to views on whether they should or should not be in the unified budget, the administration does not have a position.

I am not in a position to give you my personal views. I know that many people, over the years, have taken the position that this was a mistake. Some of the advisory groups that have studied the matter in the past have taken that position, but the administration, to my knowledge, has not considered the matter.

Ms. OAKAR. Let me state my view. Social security ought not to be viewed as part of the overall budget. It is deceptive to do that because we make it look as if we give so much money to older Americans when in fact we don't analyze what they paid in when we draw up the huge pie that is our budget, including an often quoted figure Director Stockman was not the first person to do this, and I don't want to castigate him, but he said 27 percent of the budget was geared toward older people and he was including that trust fund in his calculation. That is very wrong. I submit to you, and those who are making those proposals, that, if we were able to view the trust fund as a separate entity, we may not see all those dire tales about how it is going under. We might be able to view the system objectively, and find that indeed it is very, very

unfair to lump it in with all of our other bills. Giving that responsibility of fixing or balancing our budget to a major portion of the social security trust fund in my judgment, deceive the American people about the condition of that trust fund.

Mrs. FENWICK. How much more is being paid out every year than is now coming in?

Mr. MYERS. Congresswoman Fenwick, as you know, there are four separate trust funds. At the moment, and in the near future, one is in financial difficulties—namely, the old-age and survivors insurance trust fund.

Mrs. FENWICK. That is the one I am inquiring about.

Mr. MYERS. In that particular trust fund, there have been deficits of outgo over income ever since 1975, and so the fund has been rapidly going downhill.

For example, in 1977 there was a $2.9 billion deficit. In the next year, it was $5 billion. In the following year, it was $2.9 billion.

Ms. OAKAR. I think that is an important question, and it leads to another question I have on this subject.

When did we begin categorizing the trust fund?

Mr. MYERS. The concept of a trust fund was first developed in the 1939 act. Before that time, during the 3 years 1937-39 it was called the old-age reserve account. That was really a trust fund too, but the phrase was not used until the 1939 act.

Ms. OAKAR. When did we begin categorizing the trust fund into the old age survivor benefits, medicare disability, for example?

Mr. MYERS. The history on that point is that in 1940 there was just the old-age and survivors insurance trust fund. In 1956, when the disability benefits program was enacted, a separate trust fund was set up for it, largely on the grounds that by keeping the fund separate if the disability insurance trust fund got into trouble, as some people had predicted, it would not stop the flow of payments for old-age and survivors insurance benefits.

Ms. OAKAR. Isn't it true the same people pay into both funds, that indeed their contributions go into both funds?

Mr. MYERS. That is correct. The current tax rate of 6.65 percent is actually divided up between the three trust funds. If I might continue, in 1965, when medicare was enacted, it was decided by the Congress to have two separate trust funds for it—one for hospital insurance, which is financed by payroll taxes, and the other for the so-called part B or supplementary medical insurance, which is financed by enrollee premiums plus matching funds from general revenues.

Ms. OAKAR. You mentioned then the deficits that my colleague asked the questions about, the old-age and survivors benefits.

Would you tell this panel about the surpluses in the other categories?

Mr. MYERS. Yes. In the disability insurance trust fund, there was actually a deficit in 1977, but there were surpluses of income over outgo of about $900 million in 1978 and $1.4 billion in 1979.

Ms. OAKAR. What about in 1980?

Mr. MYERS. In 1980, as you will recall, there was legislation passed at the end of the year that reallocated some of the money between the two funds, so as to have more go to OASI and less to DI.

Ms. OAKAR. You can submit it for the record.

Mr. MYERS. I have the figures here. In 1980, the OASI Trust Fund despite this reallocation, had a deficit of $1.8 billion, and the DI Trust Fund had a deficit of $2.1 billion.

Ms. OAKAR. In 1980?

Mr. MYERS. Yes, in 1980. They both decreased in 1980.

Ms. OAKAR. What about medicare?

Mr. MYERS. The hospital insurance trust fund, on the other hand, has been increasing fairly rapidly, because it has had a number of tax-rate increases. In 1980, it had income in excess of outgo of about $800 million. The supplementary medical insurance trust fund had an excess of about $500 million.

Mrs. FENWICK. Who pays that hospital?

Mr. MYERS. The hospital insurance program is financed almost entirely by payroll taxes.

Mrs. FENWICK. You mean employer-employee?

Mr. MYERS. Yes; it is part of the overall 6.65 percent tax rate paid by both employers and employees.

Mrs. FENWICK. But the employee is still paying 6.5?

Mr. MYERS. Yes; the part that goes to hospital insurance from the 6.65 percent is part of the employee tax just as it is part of the employer tax.

Mrs. FENWICK. Then what was the other one?

Mr. MYERS. Supplementary Medical Insurance. That is paid for by premiums from the aged and disabled enrolled persons and from general revenues.

Mrs. FENWICK. How much general revenue?

Mr. MYERS. It is about 70 percent of the total cost for people over 65 and about 85 percent for the relatively small number of disabled who are in the program.

Ms. OAKAR. Let me reclaim my questioning because I think you are in another avenue, Congresswoman, and I think it is appropriate to ask those questions, but what I am trying to point out here is that it is very, very unreasonable to give all those dire statistics as you do in the opening of your statement without taking a good, careful look at the entire trust fund. That is what we should be doing.

I think that we should start from square one with an honest, objective appraisal, and quit scaring the American people. You admit on page 1, if I may quote you, "The system also faces crisis and the American people have been told repeatedly over the last few years that the system is going bankrupt."

Who is telling the American people what, and what part of the tale are they telling them?

Are they telling them about each aspect of every category and trust fund or are they zeroing in on one part of the trust fund? Are they telling them it is part of the overall budget when, at the inception of the social security system, it was never viewed as part of the budget, and that this combination presents one of the problems in dealing with this issue honestly?

If we started honestly by viewing the trust fund as it was originally conceived, and by telling the American people about every aspect of every category of the trust fund, then we might be able to arrive at some honest conclusions.

Let me ask if you did any analysis, or if the Administration did any analysis on the impact that the proposed budget cuts would have on social security and older people?

You seem to indicate that there really aren't any cultural problems or equity problems and so forth, but how would those cuts or proposed cuts affect the American people?

This task force is especially interested in older women. There has not been a lot of data provided by the social security system on this issue in the past although you are catching up now.

How would this impact older people? For example, if you decreased those who wanted to take the so-called early retirement benefit at age 62, if you decrease that already reduced benefit by 25 percent, which is your proposal, how would that impact?

What would the average check be like for an older women who is 62 for example; do you know?

Mr. MYERS. Yes, Madam Chairman.

If I might revert to one point which you mentioned when you said we should look at the system as a whole—not just one trust fund by itself—I would like to point out that the administration did look at the three payroll-tax-supported trust funds as a whole. In other words, assuming that there might be interfund borrowing, we developed our package and made our financing recommendations on that basis.

Thus, if one trust fund had ample funds at the moment, such as the Hospital Insurance Trust Fund, those could be loaned with interest to the other fund. Now, as to your current question about the impact of those proposals——

Ms. OAKAR. Wait, you said you looked at it. What did you do about it? That is not one of your proposals, is it?

Mr. MYERS. One of our proposals, which I did not mention, is there would be interfund borrowing, so that, if one trust fund was in dire straits, it could borrow from the others. This is not possible, as you know, under present law. But even under those conditions if economic conditions turn out to be as anticipated, if the President's economic recovery program is enacted and successful, the three trust funds combined could just barely get by in the next 5 or 6 years.

Ms. OAKAR. Based on what data?

Mr. MYERS. Based on those economic assumptions.

Ms. OAKAR. But that is part of the problem. You mentioned a report; though we don't have the time to go into these studies, I want to tell you my staff and I have analyzed these grandiose studies that get sensationalized headlines. We have found that they leave out a lot of significant factors in figuring out where the trust fund is going in 5 to 10 years or 20 years or 50 years. They leave out the fact that because people do live longer many people elect to work longer. They leave out the fact that there are fewer children, and while they point out that many people won't be paying into the system, they ignore the fact that this will cut down on dependent benefits.

So I want to know what data you are referring to in your pessimistic projections about the future of our system. These kinds of statements certainly do contribute to the erosion of public confi-

dence in a system that has been around since 1935 without missing a check.

I have always been a strong supporter of the social security system and I realize there are financial problems but I am certain they can be solved by the administration and the Congress working together.

The cost estimates made by the actuarial staff of the Social Security Administration over the last 45 years have attempted to consider and have taken into account all of those factors that you mentioned.

Mr. MYERS. There are some factors that are favorable and some that are unfavorable.

Ms. OAKAR. They have taken the favorable factors that affect their position, but they have not been objective. I don't want to get into that, but let me ask you about this study.

What impact would your recommendations have on older people and older women in particular?

Let's take the reduced benefit. What is the benefit now? What is the average benefit for an older women 62 and how would it be reduced by 25 percent? Then how would she be able to get along? Or isn't that a concern?

Mr. MYERS. As you point out, Madam Chair, under our proposal, people who retire at age 62 will have their benefits reduced more than at present. The average benefit for a woman retiring at age 62 is currently somewhere around say $300 a month.

Ms. OAKAR. For a women taking the benefit at age 62 it is $300 a month? It is closer to $190 a month.

Mr. MYERS. I don't have the exact figures with me.

Ms. OAKAR. There is a little difference. We are talking about $110.

Mr. MYERS. I don't have those data with me, nor in my head. You are quite correct, if the average benefit at age 62 is now about $200 a month, it would be reduced to about $150 a month under our proposal. However, we believe that this will encourage people to work longer and therefore get larger benefits in the long run.

[The following information was subsequently received from Mr. Myers:]

The average monthly benefit awarded to women in early 1981 was about $266. This figure is significantly pulled down by the considerable number of women who receive the minimum benefit because they were not substantially in the paid labor market during their lifetime.

Ms. OAKAR. Do you know the problems that older people, especially older women, have in getting a job when they are displaced as a homemaker, that widow's gap in social security between the age of 50 and 60?

Does the administration have any statistics on the difficulties in getting a job for those people?

Mr. MYERS. I do not believe that we have any data on that matter because it is a relatively subjective matter of people's opinions as to whether they can or cannot get a job.

Ms. OAKAR. But it is important because you are basing your view on the fact that it will encourage women to work longer.

The point I am trying to make is that many people who fall into that gap would try to take advantage of the so-called early retire-

ment benefit, which has already increased 20 percent, but have a difficult time getting a job. You project that the benefit would encourage the elderly to work longer, but if they can't find a job, your supposition is invalid.

You, not I, are bringing the employment factor into this issue; so if you are going to bring it in let's discuss some statistics, which are a pertinent collection of data that you ought to have at your disposal.

Mr. MYERS. I do not believe that data of that sort are ever available, except from opinion surveys, and I question the validity of many opinion surveys.

Ms. OAKAR. So, in other words, you are not really concerned about it.

Mr. MYERS. Yes, we are concerned about it, and we believe that our proposal can and will work.

Ms. OAKAR. Let me tell you, you have a whole fleet of people in the Social Security Administration who do nothing but research. Do you mean to tell me there is not one person there that could study how difficult it might be for people to get a job? You yourself are basing your supposition on the fact they will work longer?

Mr. MYERS. I will investigate and see what research has been done in that area.

Ms. OAKAR. Let me say the Department of Labor has all kinds of statistics on this issue. I would suggest you pick up the phone and you might be surprised.

They have statistics concerning the difficulties in finding employment, and so on.

We are joined now by the distinguished Chairman of our Aging Committee, and I certainly am delighted that he is here. His leadership on this issue and other issues related to older Americans is legendary.

I want to thank the chairman, I know he is so busy. Mr. Chairman, I am glad you came by. If you would like to say something.

STATEMENT OF CHAIRMAN CLAUDE PEPPER

The CHAIRMAN. Thank you very much, Ms. Oakar and members of the committee.

I congratulate you and all those on this committee upon your calling attention in this valuable hearing to social security cuts as they affect women who seem always to have to bear a heavy part of any burden that our country imposes.

This proposed cut in social security benefits I must say is not only very regrettable to me but it is a very shocking proposal however good may be the faith in which it was uttered, because social security is an institution I believe in this country.

People have come to revere it, to regard it as the greatest stabilizing force in the economy of this Nation.

Twenty-eight percent of the people who receive social security have no other means of income and I am sure that over half of those people must be women. I wonder what would happen to those people; who would provide for those people if they were not getting the meager provision that social security allows to them?

In addition to that, in the area of the disabled, many of them obviously are women, and the proposed programs that are offered

by the administration would so restructure the criteria of eligibility that 1.2 million people who would now have qualified for disability benefits over the next 5 years would not be able to share in it, would not be eligible for it.

I heard a shocking figure proposed by our staff and confirmed at hearings before the Social Security Subcommittee the other day, and it concerned the approximately 95 million people who are eligible for disability benefits under the present social security program.

Under the proposal submitted to us by the administration there would be a reduction of about 30 million people who would be currently insured for disability. In other words, 30 million fewer people would be eligible under the program proposed if enacted than now are eligible to receive benefits under the disability insurance program.

Now, if somebody is a wealthy person with inability to work it can be endured, but if one is a head of a family, either man or woman, father or mother, has an automobile accident, which is so prevalent as a means of disability today, has a broken back, let us say, and cannot be a wage earner for the rest of his or her life, how is that individual going to be cared for?

So I hope that we will accept the fact that the procedure, really the attitude we followed in the past of not touching social security in the sense of cutting its benefits to any beneficiaries, will be adhered to by this and future administrations, and that whatever people are promised by law they are entitled to receive at the appropriate time, they will get.

They will get it on the honor of the Government of America just as they would get interest on Government bonds if they owned Government bonds of this Nation.

So I am hoping you will accept in our consideration the premise that social security is not going to be cut, that people will get what they are promised by law when they pay into the program, and will make other provisions for maintaining that level of benefits for the people covered by social security.

So, Madam Chairwoman, I thank you very much for the courtesy of paying a brief visit to you and I commend you on this excellent hearing you are having.

Ms. OAKAR. Thank you very much, Mr. Chairman.

I am going to yield now to Mrs. Fenwick.

I do have some more questions but I yield to my colleague.

Mrs. FENWICK. I have no questions.

Ms. OAKAR. Mr. Wortley?

Mr. WORTLEY. Thank you, Madam Chairwoman.

Mr. Myers, do you believe that the private sector could have better managed the social security program over the past 30 or 40 years than the Government has managed it?

Would it be solvent today?

Mr. MYERS. As to the management or the administration of the program, I do not believe that the private sector could have managed it any more efficiently, or probably any less so. As you know, the administration expenses for the OASDI portion of the system have been about 2 percent of the total income or less, and currently they are less than 1½ percent.

I think that is from an actuarial standpoint a low expense ratio.

Mr. WORTLEY. That may be so but, nevertheless, the program is becoming insolvent. To what would you attribute that?

Mr. MYERS. I think that the basic difficulty at the moment has been the economic conditions that have prevailed since 1977. As you know, in 1977 Congress made some very far-reaching amendments to the system, and actually reduced benefits in a number of areas, but also provided additional financing. It was thought, at that time, that the system would get along reasonably well for the next 5 or 6 years and after that would start accumulating sizable funds.

What happened was that the estimates made at that time were based on the assumption that wages would rise more rapidly than prices. As you know, what has happened in the last few years is that the reverse has happened.

That has caused the current financing problems of the system.

Mr. WORTLEY. Nevertheless, the private sector has been confronted with the same problem and we have pension programs, and most insurance companies are meeting their obligations and they are not becoming insolvent like this program is.

Mr. MYERS. The explanation is that almost all private insurance contracts and pension plans that I know of are in terms of fixed dollars.

They do not have automatic-adjustment features.

Mr. WORTLEY. If we were to change the current system, indexing of social security benefits from the Consumer Price Index to the wage index or some other index, how much of a savings would we accrue?

Mr. MYERS. As you know, the administration is not proposing this. We considered this, but are not proposing it. Depending on how this were done, it could make a tremendous difference because each percentage point increases by somewhat more than benefits $1 billion a year.

Mr. WORTLEY. As an experienced hand in the Social Security Administration, do you think we could shift to another index and it would be fair to those recipients?

Mr. MYERS. The administration considered this and recommended not shifting.

Mr. WORTLEY. Why not?

Mr. MYERS. The administration believes that the retired aged persons of the country should have their benefits kept up to date with changes in the cost of living. This was brought out in the campaign debate last fall.

Mrs. FENWICK. Last year Representative Simon in a speech on the floor said that he felt that the Consumer Price Index was not an accurate description of what it costs to live.

He said we should be considering very seriously whether or not, for example, mortgage interest rates were an appropriate part of the cost of living index since everybody did not buy a house every month or every year. When you include those relatively few who are able to buy a new house, that the cost of living index would be accurate for you.

But it not only includes the cost of mortgage rates and the cost of housing, it includes French perfumes and wines, Italian shoes,

Japanese cars, and stereos. In other words, it is a record of buying and as long as the American people continue to buy expensive things it is going to show up on the cost of living index.

Even more, if the value of the dollar goes down, even without more buying, the cost of living index goes up, because those Italian shoes, those Japanese cars, and steroes, those French wines and perfumes go up in price if they continue to buy them.

Ms. OAKAR. Will the gentle lady yield?

If I could just interject they also include real basic necessities, such as health care, which is rising. And, our older people have many more bills.

Mrs. FENWICK. I am surprised the Chairwoman would feel it necessary to say that those are in the cost of living index.

Obviously, they are but what it also includes are some extraordinary things which I don't think most people expect to find there.

In fact, I wrote the Bureau of Labor Statistics when I first came here to Congress, to ask what was included, the list was a yard long. And it was a great surprise to me that French wine and perfume and Japanese cars would be on the cost of living index.

Thank you.

Mr. WORTLEY. I enjoyed your observation. Let me go on to another line of questioning.

Would the inclusion of Federal employees including the Congress in the social security system be beneficial or detrimental to the system in the long run?

Mr. MYERS. In the long run, universal coverage—that is, covering all Federal, State, and local government employees who are not now covered—would be a definite gain to the system. In other words, it would provide a reduction in the cost of the program of roughly 0.5 percent of payroll on the average, as measured over 75 years.

Mr. WORTLEY. It would be beneficial?

Mr. MYERS. It would be beneficial to the system. It would reduce the cost of the program.

Mr. WORTLEY. Of course, the Federal Government would then be called upon to put its fair share of contributions into the social security system but is it not true that the employees of the Federal Government have to pay income tax upon their retirement benefits whereas social security recipients do not pay income tax?

Am I correct?

Mr. MYERS. That is correct.

Mr. WORTLEY. But you still believe there would be pluses in this?

Mr. MYERS. Certainly. Your question was how would such a proposal affect the social security system. It would definitely be a plus. In the early years, there would be huge surpluses; even over the long run the system would have a net long-term gain.

Mr. WORTLEY. Mr. Frank suggested that maybe the Government should use general revenues to underwrite the full cost of the health care portion of social security.

I was surprised to learn a few moments ago that we are underwriting between 70 and 80 percent of the health care program out of general revenues; is that correct?

Mr. MYERS. That is correct as to one of the two parts of medicare. The hospital insurance portion of medicare, which is by far

the larger of the two is financed almost entirely from payroll taxes. The smaller, so-called part B or supplementary medical insurance—which pays for a portion of physician fees—is financed about 30 percent out of the enrollee premiums that are deducted from benefit checks and the other 70 percent comes from general revenues.

Mr. WORTLEY. We talk about that portion of the system being solvent, but the only reason it is solvent is because general revenues are making it solvent; am I correct?

Mr. MYERS. It calls for a certain relationship between the general revenues and the premiums. It happens that SMI has been financed adequately in the last few years because there has been a proper relationship. The general fund does not put in whatever is needed, but rather a certain matching proportion, and the operating experience has been such that it has been favorable.

Mr. WORTLEY. Since we are not too many years away from a shortage in the work force, isn't the proposal to encourage people to remain in the work force now in order to create a disincentive for people to retire at an earlier age; is that a wise concept to put forth at this stage?

Mr. MYERS. Yes; the administration believes that it is. The administration believes that, if people get it in their minds that 62 is the retirement age then they will retire at 62. If they get in their minds that 65 is the compulsory retirement age—which it no longer is, because of the legislation a few years ago—people will have their minds set on retiring at 65. So, the administration believes that by these approaches of encouraging people to go on working to age 65 and beyond, then people will do so, and that employers will accept this and be favorable to it also.

Mr. WORTLEY. The other day I heard about a proposal to offer potential retirees a tax credit equivalent to the amount social security benefits they would receive if they retired.

Do you see this having a positive effect upon the social security fund? What sort of a drain might it have on general revenues?

Mr. MYERS. I have heard of this proposal. We considered all variations. We believe that it has merit, but that it also somewhat parallels our approach of eliminating the earnings test. However, if it is done as you described it, the money would then come out of general revenues, and not out of the trust fund. So, from that standpoint, the system would be better off financially if that proposal were effectuated.

Mr. WORTLEY. Has anybody done a statistical analysis of that to see how much we might preserve in the fund?

Mr. MYERS. I believe that this proposal is fairly recent. We are studying the matter.

Mr. WORTLEY. When do you expect to have data on that?

Mr. MYERS. I am not quite certain what priorities we have given to this, but it is a proposal that, unlike some others is rather easy to study, because there are figures readily available.

Mr. WORTLEY. Shouldn't we explore all the possible avenues at this point?

Mr. MYERS. Certainly. As I said in my testimony, the administration is saying that this is our proposal. We are not "set in concrete" on all its points. We are willing to hear different ideas. The

task force that developed the proposal explored all the alternatives that we had available, but there are always new ideas that come up, and this is one, and we will most thoroughly look at it.

Mr. WORTLEY. Just one last question.

Is there a deadline, a time frame that has been set when a decision has to be made on this? My understanding is that the general fund, the basic fund for old age retirement will be insolvent by perhaps the last quarter of 1982.

How much time do we have to work out a program and perhaps a compromise with that that has been put forth by the Reagan administration?

Mr. MYERS. You are quite correct. Some time after the middle of 1982, if nothing at all is done—and I am confident that something will be done, and the American public should not fear that the system is going to go bankrupt and their checks will not come—it will be legally impossible to send out the checks from the old age and survivors insurance trust fund.

As to how fast Congress should act on this matter, it is more of a political question. In the interest of orderly planning, it would be desirable to have it done this year. A catastrophe could be prevented by last minute action but it would seem much better legislatively if it were done this year.

Mr. WORTLEY. Thank you, Madam Chairman.

Ms. OAKAR. Thank you.

Let me briefly go back to a statement in your testimony that I think needs to be examined.

On the bottom of page 4 you say: "I believe discrimination in the workplace in cultural differences between the lifestyles of men and women are not problems which social security can or should solve." Then, you mention your own record about the treatment of men and women and so on.

Isn't it a fact though that the proposals, the cuts really do have a severe impact on older women? Wouldn't older women bear the brunt of the eight or nine reform proposals, not only the current ones but those that are in Gramm-Latta?

Mr. MYERS. I think that it is very difficult to assess this, because some women are not going to be adversely affected. For example, as I discussed with regard to widows, if a widow takes the benefits at age 60, there will still be the same benefit basis as at present, so it reacts on different people differently.

Ms. OAKAR. Let's assume that the disability recommendation is increased to about 7½ years. It is not a question of pitting men agains women. We would feel the same way about men if men were the ones who went in and out of the labor force, to have children or to care for a sick parent. The fact is women commute from home to the labor force more frequently to have children, they are the ones called upon to take care of sick and elderly parents. When you increase the eligiblity for disability by 2½ years, which some of us feel is already very problematic, wouldn't you say that this increase has a negative impact on women in particular. This problem ought to be analyzed and some data should be put forward, indicating how this raise will affect those people whom Congressman Oberstar mentioned. There are hundreds of cases. For instance, one woman contracted multiple sclerosis. Her husband doesn't know

how he is going to take care of the bills and she can't claim disability because she has not been in the labor force for 5 years, and now you want to increase it to 7½ years? This situation is real.

Mr. MYERS. I think that you are quite correct. This tightening up of the eligibility conditions for disability benefits would probably have, as it would work out, more impact on women than on men, because of what you said—men tend to be in the paid labor force for longer periods, more continually than do women, but there are men too who would be adversely affected.

Ms. OAKAR. We don't think it is right for them either; I want to make that clear.

Mr. MYERS. The administration's position is that the present requirement of people only having to be in the work force for half of the time in the last 10 years does not indicate a sufficiently close attachment to the labor force to pay disability benefits under a social insurance system. We do have the safety net of the SSI system; the definition of disability for that program is not proposed to be changed so that any tightening up of the definition or of the conditions still does not affect that safety net.

Ms. OAKAR. What about the workingwoman who pays into the system and gets less than she might have if she had stayed at home and never worked? Do you feel that this individual is being treated in an equitable manner?

Mr. MYERS. This, of course, applies under the present system as well. I think that different people can have different views. I take the view that this situation is not inequitable, because I view social security as a broad social insurance system where all the risks are pooled—the risk of living and dying, the risk of becoming disabled or not, the risks of having children or not having children, the risks of having a spouse who has earnings or does not have earnings, et cetera.

I think that those risks are all pooled together in a broad manner and that they should not be viewed as narrowly as private insurance must be.

Ms. OAKAR. So you don't feel you should analyze individual circumstance when you do your research on the systems operations? You feel all of the data should be pooled. But the point is older women are the losers, and they constitute the majority of the elderly.

Mr. MYERS. I believe, Madam Chair, for instance, that if a man does not get a benefit from his wife's earnings record because he has a higher benefit in his own right, he is not being cheated, and I believe it applies equally both ways.

Over the years, I have believed and fought strongly for equal treatment of men and women under social security. I worked with Martha Griffiths on this when there was the great inequity that children of women workers had less survivor benefit protection than children of male workers. That situation as you know does not exist any more.

Ms. OAKAR. I think you are to be commended for that work. I just want you to keep on, if that is one of the problems. I have some other questions that I will submit to you in writing, Commissioner.

[The written questions submitted by Chairwoman Oakar, along with the answers subsequently received from Mr. Myers follow:]

Question 1. In testimoney before the Ways and Means Committee earlier this year and before your appointment as Deputy Commissioner, you said that a lot of women's problems were caused by the length of the computat on averaging period (currently 25 out of the 30 years since 1951). You advocated that we give women additional dropout years for child care—but now the administration adds another 3 years to the computation for everyone. What happened? Couldn't we reduce the averaging period to 10 or 15 years as is done in most industrialized countries?

Answer. Over the long run the administration proposal adds 3 years to the computation period for the average index monthly earnings for all retirement cases, so as to return to the original intent of considering age 65 to be the normal age of retirement. It is important to note that this increase applies equally to men and women.

The problem caused in the computation of average earnings because people are out of the labor market as a result of caring for children is a significant one and is being studied. It should, of course, apply equally to both women and men. Any proposal to have additional drop-out years for child care would involve increased program cost, and at this time we are concerned most importantly with the financial problems of the existing benefit structure. We are, however, studying the matter of child-care years, not only as to the policy and cost aspects but also as to the difficult administrative problems involved in adequately defining this concept.

As to using an averaging period of only 10 or 15 years, this would appear to pose serious problems of equity as between long term contributors and others who may be covered for only relatively short periods of time (including not only people who take care of children over a number of years but also persons who spend most of their lifetime in noncovered employment). I might add that most industrialized countries do not use as short periods as 10 to 15 years for averaging earnings unless they, at the same time, reduce benefits sharply for those with short periods of coverage by making them proportional to length of coverage.

Question 2. In testimony before the Ways and Means Committee earlier this year and before your appointment as Deputy Commissioner, you said that the 1980 Social Security Amendments "completely resolved" the problems with financing the disability program. If so, why are you "tightening" the insured status (i.e., vesting) requirments so that 30 million people, mostly women, will lose the insurance protection they now have?

Answer. It is correct that the amendments in 1980 which affected the Disability Insurance program would completely resolve the financing problems of that program. However, the administration has proposed changes in the DI program in order to hold down the overall cost of the entire OASDI program by eliminating or reducing benefits that are not really the basic ones. In other words, the changes recommended in the DI program—which apply equally to men and women—are being recommended because it is believed that the present provisions are overly loose and give insured status to persons who do not really have a substantial attachment to the covered labor force.

We have not yet completed our actuarial studies of how many persons would not have disability insured status under the administration proposal as compared with present law, but we believe that this figure will not be as high as the 30 million that you mention. Further in this connection, it is likely that there will be a higher proportion of women in the group who will no longer be disability insured than in the present insured population, but the sex proportion in the group who will no longer be disability insured will not be very far from a 50-50 split.

Question 3. Everyone seems to agree that the OASI Trust Fund will encounter a short-term deficit sometime in 1982 or 1983. Just how serious, or how long term, is the problem?

Answer. It is almost certain, under any conceivable near-term economic conditions, that the OASI Trust Fund will reach such a low level by the latter part of 1982 that it will not have sufficient funds to meet its benefit obligations as they come due (generally, the vast majority come due at the beginning of a month). Furthermore, under probably any circumstances, this financial crisis would occur at least by early 1983.

This short-term financing problem must be solved before we can consider the long-term situation. From a very theoretical standpoint, if we look beyond it to 1985, when a scheduled tax-rate increase occurs, it is likely that, for each year in the next 5 years, tax income will exceed benefit outgo (although under adverse economic conditions this would not be the case). Then looking further ahead to 1990, when yet another tax-rate increase is scheduled to become effective, tax income each year will almost certainly exceed benefit outgo for the next decade or so. However, in the

very long run this situation will reverse, particularly some 30 to 40 years from now, then the post-World War II baby boom attains retirement age.

Question 4. The administration says that it wants to return social security to its "original purpose" of providing an income floor for retirees. To what extent is this objective related to the funding problem in the OASI Trust Fund? Haven't we moved beyond this thinking? Will not the Administration proposals "turn back the clock"? All of the changes in the program have been arrived at by consensus, under Republican and Democratic administrations, and have been written into law. Are these proposed changes really necessary?

Answer. The administration believes that the first obligation is to restore the financial soundness of the Social Security Trust Funds so that the basic benefits will be payable even under so-called "worse case" economic assumptions. In addition, the administration believes that the dangerously low relative trust-fund balances should be brought up gradually over a period of years to a reasonable level. At the same time the administration believes that the Social Security program has departed, in several respects, from its original purposes. Accordingly, the administration proposal would assure the financial integrity of the system while at the same time maintaining its basic purposes. These two objectives are really independent, although they do have certain relationships. At the same time, over the long run, the move to maintain the original objectives of the program would permit some reduction in the heavy tax-rate increases which would otherwise be necessary.

Question 5. The "losers" under the administration's proposals, it has been contended, will be taken care of by the "Social Safety Net". Others have argued that this social safety net actually has a lot of holes in it. Would you respond to this please? I am especially concerned about those who may lose social security benefits in the future, but, even though they may be poor, will not be eligible for supplemental security income. Where is the net for this group?

Answer. Under the administration's proposals, the vast majority of those for whom lower benefits will be payable and for those who would not be eligible for benefits (such as, because of the restoration of the disability-benefit provisions to their original intent) will either be taken care of by the safety net of the Supplemental Security Income program or else will not have real need for the benefits (those for whom windfall benefits would be eliminated). As to any persons who are defined as being "poor", according to the so-called poverty concept, I believe that this mechanistic concept does not measure true need in many instances.

Question 6. The drift of the administration's proposals is to set people to work. Do you know how many people retire involuntarily each year? How will they be affected by these proposals? What about the sick elderly who cannot work but who also cannot meet the strict medical disability requirements under the proposal? What about those who cannot find employment? These problems are especially severe for older women.

Answer. Despite many figures being quoted as to people who retire involuntarily each year, there are no reliable figures or studies in this field. The social security claims data do not give any indication of "retirement", but rather they only show how many persons have actuarially reduced benefits. Many people with such reduced benefits did not actually retire before receipt of the benefits. For example, many persons with relatively low earnings claim these reduced benefits and receive them in whole or in part throughout the year even though continuing to work at the same earnings as they had before age 62. Still other persons receive such reduced benefits who had been out of the paid labor market for many years before age 62 and thus were not really involuntarily retired. Still other persons receive such reduced benefits even though they had continued working full time at their regular earnings until age 65, but they file for these benefits in the year of attaining age 65 because their earnings before their birthday (and time of actual retirement) were less than the annual exempt amount under the earnings test (or even somewhat in excess thereof).

Survey data which indicate that a very high proportion of those who claim the actuarially reduced benefits are in ill health or cannot work, or else cannot find employment do not, in my opinion, have much validity. Opinion surveys such as this tend to have answers given that people believe to be "socially acceptable" and as a result, people frequently do not give the real cause for their not working. Any individuals age 62-64 who are not sufficiently disabled to meet the changed definition for the Disability Insurance Program under the administration proposal would continue to have present the availability of payments under the Supplemental Security Income program, whose definition of disability would not be changed from the present one.

Ms. OAKAR. I want to thank you for showing up. I don't want anyone to get the notion we did not try very hard to get many more witnesses from the administration. We just were not very successful.

But thank you, Commissioner, very much for being here.

Let me go to our next panel of witnesess, all of whom are former Social Security Administrators.

Commissioner Stanford Ross, who was the Administrator from 1978 to 1979. It is nice to see you again. Commissioner Robert Ball, who was the Administrator from 1960 to 1971, and William Driver, who is the Administrator from 1980 to 1981.

We are delighted to have all of you here.

I just want to mention that one of my bibles is Mr. Ball's book. We don't always agree on every detail, but I do think your book on "Social Security Today" is a valuable part of my library, and I know Mr. Driver is also part of the SOS coalition that is interested and understanding. Stanford Ross I recall very well. You were the Commissioner who made the statement that women were treated inequitably under the social security system. We are happy to have all of you here.

You may proceed in any way you would like. Summarizing your statements will leave us a few more minutes for questions, if that is the manner in which you wish to proceed.

Commissioner Ross?

PANEL 1, FORMER SOCIAL SECURITY ADMINISTRATORS, INCLUDING STANFORD G. ROSS, ADMINISTRATOR FROM 1978 TO 1979; ROBERT BALL, ADMINISTRATOR FROM 1960 TO 1971; AND WILLIAM DRIVER, ADMINISTRATOR FROM 1980 TO 1981

STATEMENT OF STANFORD G. ROSS

Mr. Ross. I would like to submit my statement and just briefly summarize how I view the present situation that has been created by the Reagan administration proposals.

First of all I think it is absolutely vital that the impact of these proposals be analyzed carefully, and your hearings will help do that.

Second, I think it is important to look at those proposals in the context of the three levels of problem that exist with the social security system today.

The first and most immediate level is that there is a short-term deficit situation in the social security system. Somehow something has to be done by the middle of next year to keep the checks coming out without disruption.

While this is a dramatic problem, I think it is subject to solutions which are even relatively simple. For example, you could have standby borrowing authority to be paid back from future payroll receipts. You can solve that problem in a fairly straightforward manner.

The second level of problem is more serious. That is, there is a long-term deficit in the social security system, where if we take the presently legislated benefit package and project it out 75 years we will need a payroll tax burden of 20, 25, or 30 percent, maybe even more. Obviously, a level of payroll at that level would be disruptive of any society.

So major changes are going to have to come in the long run. That again I think is a serious problem because people do not want to come to grips with it. They want to postpone it including, I might say, a number of the Congresses I have worked with in the past.

The third and most fundamental level of problem, and the one that I think the most attention needs to be directed to, are what I would call the deep structural defects of the present retirement income system.

Here I am referring to the fact that there are just many inequities, inefficiencies, and just plain waste and irrationality in the way we presently provide retirement income in this country.

I think that some sort of comprehensive plan to change this has to come about. Now from the standpoint of equity there are many problems but there is none that is more important than the fact that women are discriminated against under social security.

I said that as Commissioner, and I still believe it today, because I do not think changes have been made which would rectify many of those injustices that are present in that system.

I want to be clear that I am not saying that the people who created the system had it in mind to discriminate against women. They did not. But what they had in mind in the 1930's is fantasy compared to the realities of today. Today women are workers. To start, as they did, with a basic conception of women as dependents, that they be taken care of as dependents, is totally wrong.

I think you have to change your framework of thinking. I think this task force has done major service in helping the country to do that. For once, you perceive women are workers, whether they are in the paid work force or the home, you then have the lever to begin to move this system to a new and more equitable plane.

Now, going from that basic fundamental view of where the problems are to what the Reagan administration has proposed, I think they have in good faith made serious proposals to try to deal with the first two levels of problems, the short-term deficit and the long-term deficit.

I would say that with respect to the short-term deficit it is totally unacceptable to do it by benefit cutting. You just simply cannot have that kind of immediate change in a system. So I think that you have to dismiss their proposal for the short-term solution. There are better solutions.

In terms of the long-term solution I think they have tended to ignore the body of views that has been developed through three advisory councils in recent years that tell us more complex and fundamental approaches are needed.

Here I associate myself with Congresswoman Millicent Fenwick's remarks. I have come to the conclusion that a tuck here and a stitch there will not take care of the problems. The problems are far too serious and too deep.

I personally believe that you have to get to serious consideration of solutions like a double-decker system, earnings sharing, so that people build individual retirement accounts, more incentives for private savings, more encouragement of elderly people to work and to have social security so that you do not reduce their incentive to work.

I think we need much more creativity. We need much more imagination and I think we need to get on with it.

In terms of getting on with it, there is one final point which I would like to make. No Congress and no administration will once and for always reform the social security system. It is too big. It is too vast. It is too much a part of the social fabric. I think we need to institutionalize the process of reform so if this Congress starts the job it ought to also create something like a permanent national commission on income security that will carry the job forward in coming years.

I think we need a national forum to focus attention on those issues and to make them come about. I think we are at a historic moment. I do not think there is any doubt that the short-term deficit is a gun at the head of the Congress and the administration to come up with solutions, that the checks have to keep going, and I hope we seize this moment to do what was done in 1935, which was to create a new national consensus for a new and better retirement income system.

Thank you.

[The prepared statement of Mr. Ross follows:]

PREPARED STATEMENT OF STANFORD G. ROSS

Mr. Chairman and Members of the Task Force, I am pleased to have the opportunity to participate in your hearings on the effect of the Reagan Administration proposals on women. I served as Commissioner of Social Security during 1978-1979 and was Chairman of the Advisory Council on Social Security prior to my appointment as Commissioner. I am presently a partner in the Washington, D.C. law firm of Califano, Ross & Heineman and the Chairman of the Committee on Social Security and Payroll Tax Problems of the American Bar Association's Section of Taxation. I appear today in my individual capacity and the views that I state are personal.

In order to properly evaluate the Reagan Administration proposals, it is necessary first to describe the problems with the present social security system and to analyze how these proposals do or do not address these problems.

The problems of the social security system at present can be viewed as existing at three levels. The first and most immediate level is that there is a short-term deficit situation in the social security system. Unless additional funds are provided, revenues will be inadequate to pay benefits sometime during 1982. Obviously, some action must, and undoubtedly will, be taken to keep social security checks being issued without disruption.

A second level of problem, and an even more serious one, since it is not conceivable that the short-term problem will not be resolved in one way or another, is that there is a long-term deficit in the social security system. With the presently legislated benefit structure, payroll taxes will have to rise to at least 20 percent to 25 percent in the long run and perhaps even to as much as 30 percent or more if we make more pessimistic assumptions. Obviously, a payroll tax burden of this amount would disrupt any society and is not likely to come to pass. Rather, major structural changes in social security will be made in the longer run. The long-term deficit is particularly serious because the nation, despite several years of consideration based on the findings of many advisory groups, still does not seem to be able to come to grips with the need to enact solutions.

The third and most fundamental level of problem stems from the deep structural defects of the retirement income system. Here I am referring to the fact that there are many inequities and inefficiencies—and just plain waste and irrationality—in the way we presently provide retirement income in this country. There are many overlaps among government programs. Some people get several checks from the government and reap a windfall, while others get no check or at least not enough to escape from poverty. There is an uneasy relationship between private pensions and individual savings and social security. Social security is crowding out the area for private measures of self-help and producing a culture based on dependency on government. The private pension system, although it has grown rapidly, has not received sufficient emphasis as a major source of providing income security for the

elderly. The administration of the whole system is poor, with no overall point at which rational policies can be formulated and implemented.

From the standpoint of equity there are many outstanding problems. The principal one is that women are discriminated against under social security. The system has not adapted to changing social and economic conditions. Women today are essentially workers, yet the social security system regards them as dependants. Action must be taken to give greater recognition to the contributions of women.

The problems of social security are particularly dangerous because the country has not yet perceived how deep and fundamental the defects are in this area and that there are very real potentials for future disasters. Thus, there is both the problem of identifying properly the issues to the public, a politically sensitive task, and developing solutions that will in many cases be extremely burdensome and unattractive to people, a potentially disastrous political task.

The Reagan Administration, to its credit, has proposed solutions to the problems at the first two levels. It would balance the books and clear up the short-term deficit and the long-term deficit. It has acted responsibly in having made serious proposals to deal with basic issues.

The Reagan Administration proposals, however, do not deal with the third level of deep structural defects and in many respects would simply exacerbate the problems at this level. The Reagan Administration proposals have the potential to compound many of the inefficiencies, inequities and administrative difficulties present in the existing system.

The Reagan Administration's proposals would first and foremost take care of the deficit problems by cutting benefits. The major benefit cuts are to reduce the amount of benefits on early retirement at age 62 from about 80 percent under present law to 55 percent. In the longer term, the underlying formulas for calculating benefits would be changed in ways which would reduce benefits by about 10 percent.

I am troubled that reduced early retirement benefits would simply produce a larger class of elderly with inadequate benefits who would ultimately need SSI welfare relief. It would have been much more straightforward for the Reagan Administration to simply develop a plan to phase out early retirement benefits, perhaps providing an SSI benefit for those in the age 62 to 64 category who on a means-tested basis require help. The social security system then could be based on a normal age 65 retirement with an adequate benefit which could sustain people during the many years they will be living after age 65.

Second, with respect to lowering the cost of the long-term benefit structure, I believe we should directly confront the indexing issue. The Reagan Administration proposal is an obfuscated way of changing one aspect of indexing. If long-term benefits are to be reduced, it should be done in the most equitable and efficient manner and made clearly explicable to the public.

The Reagan Administration would also help the elderly, and encourage them to work longer, by removing the earnings limitation after age 65. I favor this proposal, since encouraging the elderly who can to work, will provide those who need it with earned income, which could help to create a fourth leg to the traditional three-legged stool of social security, private pensions, and individual savings.

Finally, I think that it is necessary to recognize that benefit cuts cannot be instituted as abruptly as the Reagan Administration proposes. It would be highly inequitable to put these benefit cuts into effect beginning next year, even if they were otherwise justified. The budget can not be allowed to drive out common sense and decency. Orderly transitions are a sine qua non of change in a program on which so many people depend.

Some compromise in the short-term will be needed whereby some amount of general revenues are provided to tide the system over for the next few years. Chairman Pickle has proposed doing this by a transfer of some of the payroll tax from the health insurance trust funds to a cash payment trust funds. Another way would be simply provide for some short-term borrowing until payroll tax revenues are adequate to pay back that borrowing. Benefit cuts are simply not a feasible approach to covering the short-term deficit.

It remains to be seen whether the system in the long run can operate with only payroll tax financing, or whether this is even desirable in the long run, but I believe the Reagan Administration has held out false hopes of a payroll tax cut. It seems unlikely that the Draconian benefit cuts which would allow a tax cut will be implemented. Here, by raising a false hope for the American public, a disservice has been done. It would have been far better to have addressed the whole area of taxation and social security and made comprehensive proposals.

The ultimate issue becomes what type of plan would bring the long term into balance and also address the third level of deep structural defects. To my mind, it

will be a much more complicated plan than that which has been proposed to date. I believe that we will need to consider more creative ideas, like a double-decker system, earnings sharing, a forthright resetting of the retirement age, and the other kinds of proposals which have been developed through three advisory commissions over the last several years. The Reagan Administration largely seems to ignore this body of considered advice. By doing so, it has failed to take on many of the most basic issues of the system.

At this point in time the focus shifts to the Congress and particularly to the House Ways and Means Committee and to the Senate Finance Committee. My hope is that compromise will take place and constructive action will result. It is good that the Reagan Administration has made serious proposals and joined the debate. Discussion now will take place and, out of it, I hope, will come some sort of compromise package which will deal with the problems at all three levels. Let me describe a few of the things that I hope will be in this package.

First, I hope that a deeper working through of the long-term social security structure takes place. This will inevitably require time and effort, but the results will be worth it. We must clarify the issues for the American people as a whole.

Second, I hope that more incentives will be provided for private plans, individual savings and continued work. We must increase the incentives for people to make provision on an individual basis for their retirement and dispel the notion that social security should be their sole or even primary reliance.

Third, we should recognize that a big system like social security will not be reformed once and for all by any one Congress. We need to institutionalize the process of reform. I think we have seen that advisory groups, while doing valuable work, are ad hoc bodies that go out of existence and provide little continuity during the consideration of the changes that they have endorsed. Accordingly, I would urge creation of a National Commission on Income Security to be a permanent body to monitor information, develop data, provide options to the Congress and to the Executive Branch, and create a forum to focus the national debate that will be required in the coming years.

I do believe that the present Administration and Congress are at a historic moment for social security. Major change is required. There is no way, because of the short and long-term deficits and the deep structural defects, to avoid it. My hope is that we will get on with it and do it in the same way that the social security came about in 1935, that we will build a national consensus for a new and better retirement income system.

Ms. OAKAR. Thank you very much, Commissioner.

Commissioner Driver?

STATEMENT OF WILLIAM DRIVER

Mr. DRIVER. Thank you, Congresswoman Oakar.

It is a pleasure for me also to be here to join with you in discussing social security.

As I am sure you will well remember, there were two concerns of particular interest to all of those who were trying to improve the program during the past many months when I was Commissioner of Social Security.

The first of these was the questioning attitude on the part of workers and retirees alike as to the financing difficulties of the old age and survivors trust fund; and the second, the treatment of women under the social security benefit structure.

The financial problem resulted in a series of discussions with congressional leaders and then recommendations for interfund borrowing and limited usage of general revenues.

These rather modest recommendations would solve the short-term problems and see the programs well into the next century.

Lengthy and detailed analysis also resulted in a series of options aimed at eliminating the dependency-based benefit structure that produces so many inequitable results for women.

It is against this backdrop that we come to the new administration.

"Bankruptcy" becomes the key word as administration spokesmen rally to force cuts in social security. Unless the benefits are slashed, they say, social security payments can't be made.

These are scare tactics totally inappropriate to the solution of social security's funding needs.

Interfund borrowing, with a backup access to general revenues will serve into the next century. General revenues could be provided to finance one-half of medicare costs with a diversion of the payroll taxes now serving this purpose to the cash benefit program costs.

I am happy to join forces with those in the Save our Security Coalition banded together to halt these unnecessary cuts in social security.

We have put forward answers to social security's needs. They have been forwarded to every Member and we urge every Member of Congress to look at these proposals before succumbing to the strident calls of the administration.

Economic forecasts are the basis for recommending changes into the future as well as in the short range. When we get beyond the year 2000, 2005, 2010, I think it is too far in the future to make specific recommendations to change the benefit structure with the idea that we are going to need this money because of economic conditions that will exist 25, 30, or 40 years from now.

I believe the system as it has functioned in the past, making available on a regular basis to the Congress and to the public information regarding the specific situation in each of the trust funds and the reasons why they are in the condition they are, enables Congress to have sufficient time to act.

I certainly would join with what Commissioner Ross has said in that a national commission probably should be in session full-time to deal with this problem.

It clearly has to be one of the basic agenda items before the American public and, therefore, before our elected representatives.

I certainly commend you for your initiative in holding these hearings about women.

Women clearly are adversely affected by anything that is adverse in the social security program. Women in the past have fared poorly in many areas, and these were those that we were trying to find solutions for in the specific areas affecting women.

I hope that those solutions do come to fruition and that improvements are made in the program insofar as they affect women, and I think clearly it is advantageous that that be talked about in the immediate atmosphere of trying to solve the overall funding problems affecting the basic program.

Thank you very much.

Ms. OAKAR. Thank you very much, Commissioner.

Commissioner Ball.

STATEMENT OF ROBERT M. BALL

Mr. BALL. In light of all the statements that have been made, it would take quite a while to respond.

I would like to suggest that my full testimony be put in the record and I will do the best I can in a relatively short time, but there really is a lot to say.

Ms. OAKAR. I know Congresswoman Fenwick agrees. We will certainly review your entire testimony for the record.

We have quite a few other witnesses, but we welcome your summary. Perhaps in the questioning we can get some other ideas out.

Mr. BALL. The first point I would like to make is I have been out of town the last 2 days and this prepared testimony, which I dictated before I left—omitted one important point. I don't know what happened to the cassette but it must have skipped.

I wanted to make it absolutely clear that I am testifying today as an individual, whereas, when I testified before the select committee the other day I was testifying for SOS.

There are things in this prepared testimony that some of the organizations in SOS would not agree with.

Ms. OAKAR. Yes.

Mr. BALL. Madam Chair, I certainly do not want to embarrass my former colleague, Robert Myers. I was a Government official for a long time and I know the discipline that is necessary in representing an administration. But I think it might be desirable for you to have for the record a somewhat different view that Mr. Myers put forward in the employee magazine of Social Security called OASIS as recently as May of 1981. In contrast to his opening statement today about the system being on the verge of bankruptcy in the OASIS interview, he says:

> I have always maintained that the system is here to stay. Although it has problems they can be solved readily. Many of the headlines of gloom and inevitable bankruptcy just are not valid.

It might be useful for you to have the entire interview. I disagree with many of the things in it but it has a balanced tone that is quite different from what administration spokesmen have been saying recently.

Ms. OAKAR. Let me ask that it be submitted for the record.

[The material submitted by Mr. Ball follows:]

[From the OASIS, May 1981]

SOCIAL SECURITY—WORTH WHAT IT COSTS

AN INTERVIEW WITH DEPUTY COMMISSIONER MYERS

Robert J. Myers, former Chief Actuary of the Social Security Administration, has returned to the agency as Deputy Commissioner for Programs. In this interview conducted by Michael Naver, Director of Internal Communications, OPA, Mr. Myers discusses the financial difficulties confronting Social Security and the steps that might be taken.

NAVER. Welcome home to Social Security, Mr. Myers. Having been away 11 years, teaching and consulting, what motivated you to come back to the agency?

MYERS. The thing that motivated me most is that I am extremely interested and concerned about the Social Security system. I just hope that I can play some part in alleviating and really solving its financial problems, as well as the problem of the American public's undue fears about its continuity and viability.

I have always maintained that the system is here to stay. Although it has problems, they can be solved readily. Many of the headlines of gloom and inevitable bankruptcy just are not valid.

NAVER. As Deputy Commissioner for Programs, in what particular areas will you be focusing your attention?

MYERS. Essentially, I will be devoting my efforts to the development of policy, the implementation of policy, and other aspects of the general structure of the system; in other words, more of the theory of the program then how it will actually be administered.

NAVER. Mr. Myers, one thing that hasn't changed very much, although it may have intensified some, is the skeptical kind of questioning by the American people about whether they get their money's worth from Social Security. How should our employees answer that kind of questioning today?

MYERS. As you point out, this has always been a concern of people: Are they getting their money's worth out of the system? Quite obviously, in the early days of Social Security, everybody retiring was getting many, many times what that person and the employer had paid in. Very frequently, as much as 100 times.

As I always have said, and as I still say, Social Security is no magic machine. It cannot turn out $10 of benefits for every dollar that goes into it. But on the whole, for the large group of people who make up our country, they do get their money's worth. Less than 1½ percent of the contributions goes out for administrative expenses, and the rest goes out for benefits.

Perhaps the most important thing in any such money's worth analysis is whether to consider only the employee's taxes or the combined employer ones. In my opinion, the only proper procedure is to base the analysis on the employee taxes alone. Although the employer taxes in the aggregate are part of employee remuneration, I believe that they should be considered as being pooled for the benefit of all workers and not as being individually assignable to each worker. This is exactly what is being done in the vast majority of private pension plans.

If you try to analyze the situation individually, there are some very difficult problems of how to measure "money's worth." You have to take into account such factors as interest rates, mortality rates, disability rates, retirement rates, and family composition, and these differ widely among people. But if you pick certain individuals, you might find some that do not get their money's worth. If you look at the matter on a broad group basis, and take a young group of new entrants, on the whole they get their money's worth. In private insurance, if a group of people buy policies, whether it is life or automobile insurance, some will get more and some will get less than the premiums which were paid. But they have all received their money's worth in the protection which they had.

NAVER. A related question to the money's worth issue is the question of the adequacy of benefits. We hear criticism, usually from representatives of the aged, that the benefits just aren't high enough. How should we answer such criticism today?

MYERS. The answer is that we must have a balance between the beneficiary population and the working population. Surely, most people say they could always use more money. But I think the real test of the adequacy of the Social Security benefits is what proportion of the people need supplementary public assistance, as through the Supplemental Security Income program.

Among those aged 65 and over, only about 8 percent of Social Security beneficiaries also have to turn to SSI. In my opinion, when the proportion is as low as that, the Social Security benefit level is doing a pretty good job. So I think that the principle should be maintained that Social Security is a basic form of protection upon which people can, should, will, and do build. For those who cannot—those who are unfortunate for some reason or another—there is always the net of SSI.

NAVER. Would you also say the question of balance ought to be applied to those on the working end of the population scale who are complaining about increases in the social security payroll tax from year to year? How do we address that?

MYERS. I think that the Social Security system is a good one, and anything that is good ought to be paid for directly and openly. As the old saying goes, there is no free lunch in this world.

Although the tax rates may seem high to some, the fact is that to maintain a system with a reasonable level of benefits, it is going to cost money. To try to avoid these taxes by some other method, such as financing from general revenues, is just fooling oneself. The taxes are there in any case. You have to pay the cost one way or another. I believe that it is best to do it in a directly visible way through payroll taxes and at the same time convince people that this is a program that is really worth paying for.

It will provide you with benefit protection in the long run. It has quite possibly done so for your parents in the past. There is this broad pooling to accomplish the desirable social result of a broad economic form of protection.

NAVER. What, in your view, are the major challenges ahead in program policy for Social Security?

MYERS. Being an actuary, I foresee the major problem as being: How will the system be financed, with its rising costs, in the future? Particularly, how will the system operate in times of economic stress such as we have at the moment, when prices are rising faster than wages?

There are economic pressures on beneficiaries. If benefits do not keep up to date, there is pressure on the working population to finance higher benefit levels.

Then too, over the long haul, there is the well-known demographic problem of a rising proportion of beneficiaries to workers, which means higher costs relative to payroll. How will this be met? Will it be met by higher taxes? Will it be met by other methods, such as modifying the benefit provisions—for example, raising the minimum normal retirement age?

NAVER. Do you see some of those issues surfacing in Congress and in the Administration this year?

MYERS. I think so. I think that both the President and the Congress have a strong desire to get the system into a sound financial condition—not just for next year or the year after, but for the long range. I think that this is essential to restore and maintain public confidence in the system. It is a viable system now, and it will continue to be so, even under the demographic changes that are coming.

NAVER. In that connection, Mr. Myers, can you give us some specific options that are being considered for both the short term and long term financial problems?

MYERS. The Administration has established a working group that is looking at all of the options. I cannot now say just which ones will be chosen, but I can describe the various options which may or may not be accepted and which would have varying degrees of validity and public acceptance.

Quite obviously, you can either reduce benefit outgo, or you can increase the tax or contribution income, or you can have a combination. Looking at the income side, the ways of increasing it essentially are either to have higher tax rates, or to have money come in from some other source, such as general revenues, which is to my mind not desirable. It is better to have the financing mechanism out in the open, so that people know what the program is costing. One other alternative that thas been used in the past is to raise the maximum taxable earnings base. In some people's views, this is too high already. But, even raising it from the present level, there is a law of diminishing returns. There is just not too much taxable income above the base at the moment.

Now as to reducing benefits, there are many what might be called minor benefit provisions that perhaps have outgrown their usefulness. Included would be the lump-sum death payment, the student benefits for post-secondary education, and the minimum benefit. The Administration is recommending the elimination of all of these. This would help to solve the financial problem, but would not be a complete solution by any means.

NAVER. Do you anticipate any proposals to raise the retirement age as a way of containing costs?

MYERS. Gradually increasing the minimum retirement age at which the full benefit is paid would have a significant long range effect. Starting to do so, say, 20 years hence would give people sufficient time and notice to make their retirement plans accordingly.

A reduction in total benefit outgo would result from this. Some people allege that this is a reduction in benefits for individuals. I do not think so, because the total benefits payable to people retiring at age 68, some 30 years from now, will be about the same (or even more) than the total benefits for people retiring now at age 65 because of the longer life expectancy that will occur in future years.

The second thing that might be done is to reduce the benefit level itself. This could be done in various technical ways. The argument for this is that with increasing real wages—as we hope we will have in the long run—retirees will still have the same purchasing power as do current retirees now. The arguments against this, however, are that the benefits relative to final wages will be lower and that people really live in relative terms, not in terms of absolute purchasing power.

The third option that can be considered is the currently provided indexing of benefits, once they are in current payment status, for changes in the Consumer Price Index. This has been subject to some criticism because it is argued that the CPI does not accurately measure changes in living costs, which may be true at times. Conversely, if you change to a new index, it could go haywire under other economic circumstances. Still other people argue that, in times like the present—which hopefully are unusual times—the beneficiary should not get larger increases in benefits than the workers are receiving in their wages. Therefore, it is argued by some that we should index by the smaller of wage increases or price increases, and possibly make up for it later. Thus, in the long run, we would be indexing by the CPI, but would be leveling it off in unusual times.

The National Commission on Social Security found that, if a provision like this had been put into the 1977 Amendments, we would not have the short term financial problem that we have now. The Trust Funds would be of quite ample size. Conceivably, later on, when the CPI turned around and rose less than wages, the

amounts so "withheld" would be "repaid." For example, under this basis, if in one year wages rose by 8 percent, and the CPI increased by 9 percent, the benefit increase would be 8 percent. Then, if in the next year, wages increased at least 1 percent more than the CPI, the 1 percent "loss" of the previous year would be "repaid" by having a benefit increase of the CPI rise, plus 1 percent.

On the other hand, there is the argument that retired people and other beneficiaries are generally in the lowest economic strata and that there should be no changes in the indexing, so that their benefits retain their purchasing power.

These are, as I say, all controversial options, and there are differing views on them. I do want to make it clear that the Administration has no position on most of them.

NAVER. Turning to another area, do you see any likelihood of simplifying the program, or are there any specific provisions for simplification that you would favor?

MYERS. Simplification is always something that you have to be in favor of—like the American flag, motherhood, and apply pie. But it just cannot always be done and at the same time have equitable treatment provided between different types of beneficiaries. I sympathize very much with people who say that the program is too complicated. But any program that is set up on an insurance basis, with a wide variety of beneficiary categories and benefits to reflect previous earnings histories, must be complicated. It would be nice if we had what some people may remember as the Townsend Plan, which proposed a flat benefit for everybody aged 60 and over, so that you would not need all the earnings records or the earnings test. But I think that such a basis would not have public acceptability. The benefit level would be either too low for some or too high for others. I am just a strong status-quoer in believing that the present type of structure is the right one.

NAVER. Some have said—including you, I think—that there may be areas in which Social Security has expanded its scope of operations a little bit too much. Are there any areas of program content that you think should be cut back?

MYERS. The criticisms that I made a decade or more ago were that I was essentially concerned about the trend of continuing expansion. There are features of the present program which I think are extraneous. They have perhaps outlived their usefulness, or they certainly are not as necessary as other features. The benefits that the Administration has focused on, which I mentioned earlier, are examples of benefits that are not necessarily undesirable, but they are not as important as others. With a limited sum of money, you want to put your money where it will do the most good.

For example, the lump-sum death payment was put into the system—not really by design—but rather came about as a historical accident, to preserve certain apparent accrued rights that had been acquired in 1937-39. Over the years, it has been frozen at its present level of $255. It really is an appendage that is not necessary, although not extremely costly. Sometimes, however, you have to trim, and every little bit helps in trying to bring about financial stability and long-range balance.

Mr. BALL. Madam Chairman, in this rather long statement of mine I have picked up each one of the administration's proposals that has a particular impact on women. Of course, women are badly affected by the same things that badly affect men, but over and beyond that there is no question that many of these proposals have a particularly harsh effect on women.

It takes a long time to go through these individual proposals, and I would be inclined not to mention each one of them except in response to your questioning and turn instead to material in my statement that is responsive to recent administration statements, particularly Mr. Stockman's testimony before the Ways and Means Committee last week.

I believe that to understand the administration's proposals it is necessary to understand their definition of the social security financing problem, as opposed to other definitions of the problem that one might put forward.

It is necessary too, to understand their apparent objectives both for the social security system and for the contribution that slashing

social security benefits could make to other Administration objectives.

First of all, their definition of the problem: The administration has chosen to present the financing problem as one which requires the adoption of massive benefit cuts as the only reasonable alternative to, "the most devastating bankruptcy in history, on or about November 3, 1982," coincidentally, the time of the next congressional election.

In point of fact the administration's benefit cuts are designed not only to reduce benefit payments to the point where the income of the system would fully cover the outgo but are designed so that within a 5-year period there would be a very large increase in social security reserves.

In addition to defining the problem in a way which requires very large increases in the reserve funds to be built up over a short period they have defined acceptable ways of reaching this goal so the huge benefit cuts would appear to be inevitable. They are now, for example, attempting to rule out—at least Mr. Stockman did, Mr. Myers did not—having the OASI program, which for the next few years has greater expenditures than income, borrow from the hospital insurance fund, which in the next few years unquestionably has an excess of income over outgo.

I was pleased to see Mr. Myers still thinks that is the administration position.

This piece of a solution was ruled out by Mr. Stockman last week on the ground that in the 1990's hospital insurance will need the money but in the 1990's OASI expenditures as a percent of covered payroll or as a percent of gross national product will be less than today and the 1990's will be a good time for OASI to pay back a loan.

I think this is a point that is being missed in the presentation of this problem generally. The general conditions for the next 25 to 30 years are favorable to social security financing. The easiest way to get hold of this idea is to remember that the baby-boom generation is paying into social security during this period and this fact balances any increase in the number of retired older people.

Therefore, even small increases in productivity, will result in a decline in expenditures of old age, survivors, and disability insurance measured as a percent of covered payrolls or gross national product.

If there is a problem from demography—incidentally, I don't agree with Commissioner Ross; we can argue about that some other time. As a matter of fact, I didn't agree with anything he said except the first point.

Ms. OAKAR. That is why you are all here.

Mr. BALL. But if there is a demographic problem—and there is an argument about the size of it and whether it exists—it is clearly in the next century, not the next 25 years. So borrowing by OASI from hospital insurance, which has an excess now, or authority to borrow from the general fund is a perfectly feasible short-term solution if the Congress wants to adopt a minimal solution.

I would be glad to support a more fundamental solution but this minimal approach is not unreasonable and would solve the problem, certainly, into the next century.

The administration, by ruling out borrowing, also rules out general revenues for the system, and ruling out increases in social security taxes, and then insisting on building up reserves, insisting on using the most pessimistic possible economic assumptions—ones that project 5 years of just about no real growth—well, of course if you allow a person to define a problem, and rule out all possible solutions but his own, then, presto, his solution is the one you have to accept.

Ms. OAKAR. May I interject here? When the Commissioner was referring to the data that they nad collected to project the bankruptcy factor, it was my point that all of the negative input and none of the positive signals were presented. That is why I don't think those reports are very objective.

Mr. BALL. Supposing the problem were defined as the need to cover outgo in the OASI fund during the next several years, realizing the fact that costs as a percentage of payroll will decline over the next 30-year period—then one could take the minimum approach Commissioner Driver and I mentioned—and if you used realistic economic assumptions, instead of a need for huge amounts of additional money that the administration is talking there would be need for much less. Taking all the social security funds together, under these circumstances there would be excess of expenditures over income for the 5 years of only 1.3 percent of expenditures.

That could be handled on a minimal basis from a combination of using Trust Fund assets and from backup borrowing authority from the general fund.

I think it is important for the Congress to realize—and I am sure most Members of Congress do—that it is convenient for the administration to take the stand on social security they have for reasons that have little to do with the social security program.

The rapid buildup in social security funds they advocate will show up as contributions to balancing the unified budget even though by law the funds have to be held for the purpose of paying social security benefits and administrative costs. That is one side objective.

Moreover, the final result of such cuts down the road will be a much smaller, much less effective social security system with the corollary, as they have said, that social security taxes can be reduced even below present levels and thus the role of Government in American society curtailed and total expenditures for Government programs, including social security, pushed back to a lower percentage of gross national product.

The Congress needs to decide whether they want a permanently much less effective social security system, it is not at all a question of having to make these cuts in order to prevent a default of payments on November 3, 1982.

I have discussed a minimal plan in my full testimony before the full committee. I also suggested if you want to accept the administration's definition of the problem and buildup the trust funds by large amounts in the next 5 years—and let me say, authority to borrow from general revenues can take the place of a trust fund of any size—there are at least two ways to go that would build up the funds without any cuts in benefits.

One is the proposal made both by Congressman Barber Conable, the ranking minority member on the Committee on Ways and Means, and by Congressman Pickle, chairman of the Subcommittee on Social Security of Ways and Means, which would finance one-half of hospital insurance under medicare out of general revenues and shift some social security taxes from medicare to the cash benefit program. This approach would build up the funds quickly if that is the objective. Another approach would be to allow people, in one way or another—there are a variety of ways this could be done—to take account of the social security taxes they pay in computing their individual income tax and then, as part of the same bill, increase the social security tax going for the benefits.

The combination of the two actions is a net reduction in the taxes that people would pay of about $8 billion, if you assume that the social security tax rate for OASDI would be raised in 1982 to the rate now scheduled for 1990.

These two actions build the trust fund rapidly and meet the administration objective without any reduction in benefits.

Madam Chairman, I have not in this testimony discussed the question of whether it is desirable now to take action to deal with the possiblity of the need for increased social security taxes in the next century.

I have gone into that question at considerable length in the testimony I gave before the full committee. I would be glad to discuss it now if you want to, and, of course, I would be glad to discuss any of the specific proposals of the administration which have a particularly harsh effect on women, effects which I have detailed in my prepared statement.

Thank you very much.

[The prepared statement of Mr. Ball follows:]

PREPARED STATEMENT OF ROBERT M. BALL

Madam Chairwoman and members of the Task Force, my name is Robert Ball. From April 1962 until March 1973 I was Commissioner of Social Security, serving under Presidents Kennedy, Johnson and Nixon. Prior to becoming Commissioner I served for approximately 20 years in various positions in the Social Security Administration and its predecessor organization, the Social Security Board, and for the ten years prior to becoming Commissioner I was the top civil servant in the Social Security organization. Since leaving the government I have continued my deep interest in social security and have written and lectured extensively on the subject. I am the author of "Social Security: Today and Tomorrow" published by Columbia University Press and was a member of the most recent statutory Advisory Council on Social Security.

On May 21, 1981 I testified before the full Select Committee on Aging giving in detail the position of the "Save Our Security" (SOS) Coalition. This Coalition is made up of more than 90 organizations (and growing) with a combined membership between 35 and 40 million adults, about equally divided between those who are currently contributing to the social security system and building protection for themselves in later years and those who are currently receiving social security benefits. This testimony has been made available by SOS in booklet form and can be obtained by writing SOS, 1050 Seventeenth St. N.W., Suite 770, Washington, D.C. 20036. By and large, therefore, it does not seem necessary today to elaborate further on the basis of the SOS position.

WOMEN AND TODAY'S SOCIAL SECURITY SYSTEM

Although social security protection for women needs to be improved—older women living alone are more likely than any other part of the elderly population to be poor—the present social security system, just as it is, is of immense importance to women. Women in old age and, of course, the surviving widows and mothers of fatherless children depend on social security protection even more heavily than

men. Few women workers are eligible for sizable private pensions because they are less likely than men to have worked long enough to be eligible in industries that have good plans.

Many of the provisions in the present social security law, even though not sexually detemined, are distinctly favorable to women as a group. For example, the weighted benefit formula, which is designed to replace a greater proportion of prior earnings to the lower-paid person than to the higher-paid, is of great importance to women workers because of their lower average earnings and the fact that many will be out of the labor force for substantial periods while raising a family. For the same reason, the drop-out provisions of present law, which allow a worker to have the five years of lowest earnings ignored in the computation of the average wage upon which benefits are based, is of great importance to women.

There are questions in equity in social security which need to be addressed. For example, questions of equity as between couples where two persons work and couples where only one person works. In the case of divorce there is inadequate recognition of the economic contribution of a wife who has been primarily a homemaker. But the equity and adequacy issues are not, overall, whether men get more out of the system for what they pay than women do. There are real problems that need to be addressed, but this is not one of them. If one compares the treatment of men and women workers who contribute to the program and see what each group gets for its money, the result is very favorable to women. The reason is that women have a longer life expectancy, few of them work beyond 65 (and so have fewer benefits withheld under the retirement test), and they receive a greater advantage from the weighted benefit formula; all of this more than compensates for the fact that men workers accounts generate more secondary benefits. If one were to leave all the other provisions of the social security program exactly as they are now written, but set separate contribution rates that cover the cost of cash benefits derived from the wage records of women workers and those derived from men workers, the rates, according to the Social Security actuaries, would need to be about one-fourth higher from women workers. Of course, if one were to compare all the benefits that women get as a group (based on both their own wage records and those of their husbands) to the contributions that women pay, the benefit-contribution relationship would be considerably more favorable to women. This is true for many reasons, but most importantly because so many women get wives' and widows' benefits without making a specific contribution, and because, again, on the average, they live longer. According to the Office of the Actuary of the Social Security Administration, about 28 percent of the payments into the system are due to female employment, and about 54 percent of the benefit payments are made to female beneficiaries.

Women should bear these facts in mind when they hear proposals for restructuring the social security system so that the benefits paid would be entirely related to the past earnings of the individual worker without regard to special consideration for families with dependents and for those with low earnings. Such proposals have been around for a long time. This approach has been put forward by some academics as the goal of separating out the "insurance" features of social security and the "welfare" elements of social security, and the general approach has had the backing of the American Association of Retired Persons for some time. Such a radical restructuring of social security with a vast increase in the numbers of people who have to turn to means-tested programs for support takes on a new seriousness when the Administration talks about the idea, ". . . that every effort must be made to reevaluate the auxiliary benefits and welfare elements" in the social security system. In statements such as this one by Mr. Stockman before the House Ways and Means Committee on May 28, 1981, we have a statement of long-range goals that, if carried out, would do much greater injury to women than the horrendous proposals already made. A system strictly relating benefits entirely to past earnings or contributions would mean a great reduction in protection, on the average, for women who work for market wages and for women who work primarily in the home.

In summary, the points made so far, let me say that even though I recognize the need for improvements in the treatment of women under social security as compared to present law, nevertheless, present law, with its special benefits for dependents, its special concessions to people who are out of the labor force for substantial periods of time, and for those who have low average earnings, make present law greatly to be preferred from the standpoint of women to substitute systems based on a strict relationship of benefits to contributions or earnings, regardless of whether the worker is married or single, has children, and regardless of the level of earnings. The present system and its general philosophical framework should be preserved. Women have a special stake in maintaining and improving social security.

Social security as it is today is of the greatest importance to older women and many younger women. For about 60 percent of older women not currently married (this is about two-thirds of the women over 65) social security benefits are just about the only source of income. To consider reducing the inadequate benefits of these women who are now receiving benefits or will be receiving benefits in the future will be very hard on them indeed.

IMPACT OF THE ADMINISTRATION'S PROPOSALS ON WOMEN—ELIMINATION OF THE MINIMUM SOCIAL SECURITY BENEFITS

About three-fourths of the three million present recipients of the social security minimum benefit are women. The Administration's proposal would eliminate this benefit for all those currently receiving them and instead pay a lower amount derived from the application of the benefit formula to average lifetime earnings. About one and a half million current recipients of the minimum benefit would be worse off under the proposal in spite of the Administration's generalizations about protecting the benefits of those currently receiving them. About one and a half million would not have lower incomes because either they are entitled to a benefit as a spouse in addition to the benefit based on their own wage record, or because an SSI supplemental payment would increase as the social security payment was reduced.

It is argued by the Administration that those who are "truly needy" among the million and a half who would have their benefits reduced could apply for Supplemental Security Income. But Supplemental Security Income requires that an individual must be over 65 (many of these women have been forced to take benefits at age 62 because they had no alternative) and SSI requires that one can have no more than $1500 in personal assets. Moreover, many people just do not want to apply for welfare with its test of income and assets.

As the Washington Post said in a recent editorial: "Since the social security minimum benefit is already due to phase out over time, the Administration's proposal offers no permanent savings or fundamental reform. All that it promises is some short-term budget savings at the cost of potential hardship to some very vulnerable people. It doesn't look like a fair deal to us."

ELIMINATION OF BENEFITS FOR YOUNG SURVIVORS AND DEPENDEDNTS 18–21 ATTENDING SCHOOL

The Administration proposes to reduce benefits for these young people by 25 percent the first year, 50 percent the second, 75 percent the third, and eliminate them entirely in the fourth year.

Low and median income widows and their children will particularly be hurt by this proposal. For many it will mean that their children will not complete high school or technical school and for many more that they will not be able to go on to a junior college for a full four-year term. Since education is highly correlated with lifetime earnings, this handicaps another generation of Americans because their fathers died early or became disabled.

COMPUTING THE AVERAGE EARNINGS ON WHICH BENEFITS ARE BASED OVER THREE ADDITIONAL YEARS

The Administration would reduce benefits for just about everyone by averaging earnings over three additional years, but the provision would again fall with particularly harsh effect on women. It has the practical effect of reducing the present number of years which can be ignored in the benefit computation from five to two, since in the future, average earnings would be computed over a career-average up to age 65, rather than up to 62. The result is that anyone who for one reason or another is out of the labor force during some part of the time over which average earnings are computed, particularly married women who leave paid employment for a time to care for young children, people forced into retirement at age 62, people with employment handicaps, and disadvantaged groups generally.

A REDUCTION IN BENEFITS PAYABLE TO A FAMILY

The maximum amount payable on a single wage record (that is, for a family of survivors or a family made up of a disabled or retired worker with dependents) under the Administration's proposals would be limited to 150 percent of the worker's own benefit or 85 percent of the worker's career average of earnings indexed to recent earnings. This is the provision that now limits the amount of disability insurance that can be paid on a single wage record. Under present law, family benefits based on the earnings of a retired worker or a deceased worker can be as

high as 188 percent of the worker's benefit. This reduction, of course, will hit particularly hard widows with young children. This provision falls with special weight on women since a higher proportion of them are already out of work before 62 and are waiting for the first age of eligibility.

The Administration has proposed reducing benefits for people applying for benefits at age 62 by over 40 percent at the end of the next five years. The result would be that the benefits payable to the average worker taking benefits at 62 would be about 19 percent of recent earnings instead of about 33 percent today. No one applying for a social security benefit at 62 would receive a benefit equal to, or exceeding, the poverty level. We are talking here, of course, about permanent reductions. There is no increase in benefits when one reaches 65.

These reductions are achieved by a combination of provisions. First of all, the Administration proposes an across-the-board reduction in benefits that applies to everyone—those applying for benefits at 62, 65, or later. For the worker earning average wages, this is a reduction of about 8 percent, dropping the relationship of benefits to recent earnings from 41 to 42 percent in present law to about 38 percent under the proposal. Computing average earnings over three additional years, as previously described, would be particularly harsh for those who are out of work and apply for benefits at 62 because the three additional years that need to be counted in figuring the average earnings on which benefits are based would be zero years. And, as previously described, the maximum amount payable on a single wage record would be lower.

But there are, in addition, two special provisions aimed at those applying for benefits before 65. Those taking benefits at 62 would get only 55 percent of the reduced amount payable at 65, as compared with 80 percent today. The spouse would get only 27½ percent of what was payable to the worker at 65, as compared with 40 percent today. The 80 percent rate in present law was designed to be an actuarial reduction, that is, the lower rate payable beginning at 62 over a longer life expectancy, taking interest into account, results in the same total benefits paid at a higher rate over the shorter life expectancy from age 65 on. I have been unable to discover what the 55 percent reduction is based on.

It should be made clear that there are also reductions for those who apply for benefits between 62 and 65. The reduction from the benefit rate at 65 to 55 percent of that rate at 62 is graded-in over the intervening years.

The Administration has also proposed that benefits for the children of workers who apply for benefits before 65 be eliminated entirely. This has not been taken into account in calculating the over 40 percent benefit cut.

A PROPOSED ONE-THIRD CUT IN DISABILITY INSURANCE PROTECTION

Women workers, of course, are harmed equally with all workers by the overall reductions in disability protection, and I will discuss this in a minute. However, there are two proposals in the disability area which have a particular effect on women workers. These new provisions would require a much stricter test of recent employment. When the disability insurance program first became law, an individual to be eligible had to have worked not only during five years out of the last ten, the test today, but also during a year and a half out of the last three years. The Administration proposes to restore this test of recent employment and, in addition, to make the test of recency even more difficult to meet by changing the present requirement of working five years out ot the last ten to a requirement of seven and a half years out of the last ten. Again, women workers who are more likely than men workers to have gaps in their wage records, particularly because of child rearing, would suffer the most. It is to be remembered that the Social Security Act does not provide any benefits for disabled wives. You have disability insurance protection only if you yourself work in paid employment. Of course these changes in the eligibility requirements for disability affect most all those who are most likely to have gaps in their earning records, including not only women but those with handicapping conditions, the uneducated, the unskilled, minority groups and marginal workers generally.

Disability insurance protection under social security was substantially reduced by the 1980 amendments to the Social Security Act. The Administration of the program has also become increasingly restrictive. Today about 70 percent of all applications for disability insurance are disallowed. Those receiving benefits are having their cases reviewed much more frequently than in the past. This part of the social security program does not have a financing problem. According to the estimates of the Board of Trustees it is adequately financed for the full 75 years over which the estimates are made.

Nevertheless, in addition to the provisions already discussed, the Administration is proposing additional benefit slashes in the disability program which, when com-

bined with those previously described, provide for reductions that are even more severe than those recommended for the old-age and survivors' insurance program. It needs to be remembered, first of all, that the general reduction in benefits that was previously discussed applies also to disability insurance and that all the individual cuts aimed specifically at the disability program are on top of that reduction.

It should be remembered, too, that the proposed changes in the disability insurance program will make it much more difficult for workers between age 62 and 65 to become eligible for total disability benefits. In other words, and even larger number of those out of work at 62 for health reasons will have to apply for the greatly reduced retirement benefits previously discussed, because if the new proposals pass, many who under present law would be eligible for disability benefits would no longer be eligible. So once again the age 62 to 65 group, containing proportionately more women, is greatly disadvantaged.

To a very considerable extent, the social security disability program is a program for older people. Approximately half the beneficiaries are age 55 or more and three-fourths are aged 50 or more. To be eligible for disability benefits a person must be unable to engage in any substantial gainful activity. It is, of course, not surprising that as people grow older more of them will meet this test, but the point is that the disability insurance program, to a considerable extent, is an alternative to a lower general eligibility age for retirement benefits. Disability insurance singles out those who can't work and limits the benefit payments to them.

The disability change that will affect the older worker—both men and women—particularly is the elimination of all factors in adjudication other than those that are medical. Under present law, disability determinations are made by looking at the whole person. In addition to strictly medical factors, the determination takes into account experience, training and age. Thus conditions that are considered completely disabling may be different for a professional person and an uneducated worker who can do only unskilled heavy labor, and may be different, also, for a 35 year old and a 63 year old. The proposal would eliminate those differences so that present adjudicative standards that are somewhat less strict for older people would be made severe.

The Administration also proposes two other cutbacks in disability benefits. At the present time, in order to get a social security disability benefit, a worker must be totally disabled for a full six months and then is paid for that sixth month. The disability must also be one which is expected to last for a total of at least 12 months or to result in death. The Administration proposes to require that a worker be totally disabled for a full seven months with a payment for the seventh month and that the disability be one which is expected to last for at least 24 months or result in death.

Taken together, and on top of the reduction in benefit amounts that apply to disability as well as to all other parts of the program, the recommendations amount to a gutting of the disability insurance program.

Equally disturbing as the specific recommendations is the characterization of the whole disability insurance program by Secretary Schweiker as a welfare program. In testifying before the full Select Committee on Aging on May 21, 1981, he said in response to a question: "Why not consider some of the pure welfare aspects and consider them in general revenue. In fact, this disability program was started before we had SSI (Supplemental Security Income), which is a similar program. We have another safety net there. Our point is we shouldn't use two safety nets."

This was not an inadvertence. Secretary Schweiker repeated much the same comment during his interview on "Meet the Press" the following Sunday.

In view of the Administration's expressed desire to reduce or eliminate "the welfare aspects" of the social security program, one wonders what is coming next for disability insurance. Now the fact is, of course, that disabililty insurance is not a welfare element in the social security system. It is very much like a large-scale group insurance disability program. The benefits are derived from past earnings and contributions just as in the case of survivors' insurance under social security or retirement insurance. It is not some sort of add-on but an inherent part of the protection against the loss of earned income because of the risks which social security systems throughout the world provide for the contributing population—loss of earnings because of retirement in old-age, total disability or death.

But what is going on here? Mr. Stockman, in his testimony before the Ways and Means Committee on May 28, 1981, refers to ". . . the system's continued ability to deliver on its promise of basic income protection for America's retired and disabled workers" leaving out altogether the survivors' insurance part of social security. This statement reaffirms support for disability insurance while ignoring survivors' insurance. Secretary Schweiker seems to think of disability insurance as a "welfare element in social security," and expresses doubts about whether you should have

both disability insurance and a supplemental program based upon need, Supplemental Security Income, and does not include it in defining the basic purposes of the social security system.

REDUCTION IN COST-OF-LIVING ADJUSTMENT FOR ALL THOSE CURRENTLY RECEIVING BENEFITS BY POSTPONING THE PAYMENT FOR THREE MONTHS

Although this proposal for benefit reductions to those now currently receiving benefits applies, of course, to all recipients, obviously those receiving the lowest benefits and who have the least ability to absorb uncompensated increases in prices will be hurt the worst. Once again, women are particularly disadvantaged.

Administration spokesmen have argued that postponing the cost-of-living increase for three months will just about compensate for their contention that the consumer price index used as a basis for increasing social security benefits overstates the true increase in the cost of living for beneficiaries. Such a conclusion overlooks two points: (1) The once-a-year cost-of-living adjustment for social security beneficiaries is provided long after rising prices. A January 1981 study by the Office of Management and Budget (Report on Indexing Federal Programs) states that, "Since 1975, social security recipients have experienced a 3.4 percent decline in real benefit levels due to the lengthy lag time in adjusting benefits during a period of accelerating inflation."

(2) Although it can be argued with some merit that the current CPI at times overstates the inflation rate by the way in which it computes housing costs, a study by Data Resources Inc. (DRI) shows that the elderly, as compared to younger consumers, spend more of their income in three categories of expenditures which are experiencing the most rapid price inflation: food at home, fuel and utilities, and out-of-pocket medical expenses. The DRI study shows that since 1970 the cost of living for the elderly has risen faster than the cost of living for younger consumers. Between 1970 and 1979, the Bureau of Labor Statistics all-urban Consumers' Price Index (CPI) rose an average of 7.2 percent compared to 8.3 percent for food at home, 9.4 percent for fuel and utilities, and 7.9 percent for medical care. These costs have risen at a composite rate of 8.4 percent per year versus a CPI rate since 1970 of 7.2 percent per year.

It may be that the current CPI tends to overstate increases in housing costs. From the point of view of social security beneficiaries, however, for every overstatement in the general CPI, there is probably at least one understatement in another expenditure category.

I personally have no objection to the adoption of a different measure for cost-of-living adjustments if there is a better one than the CPI, but certainly it should be selected on an objective basis, not because it produces a decrease in the amount of the adjustment. It may well be that an objective study of all the factors involved would produce an index for social security beneficiaries that was slightly higher or more likely about the same as the CPI, and that taking into account the lag in making the adjustment would hardly justify the conclusion that beneficiaries, on the whole, have been overcompensated.

In summary, the Administration has proposed permanent cuts in social security protection that amount to an overall reduction of 23 percent, reductions of about one-third for the disabled and over 40 percent for those forced to apply for benefits at 62. There will be permanent reductions for 2.3 million people already receiving benefits and all those now on the rolls will be affected by the postponement for three months of the cost-of-living adjustment. Moreover the new adjustment basis comparing two full years instead of two quarters as at present will ordinarily produce a result that is less favorable to beneficiaries. Women are affected by all the cuts that affect men and, in addition, several of the provisions, as described above, are particularly harsh on women either in their role as wage earner or homemaker.

FINANCING

To understand the Administration's proposals, it is necessary to understand their definition of the social security financing problem (as distinct from other ways in which it might be defined) and to understand some of their apparent objectives both for the social security system and for the contribution that slashing social security benefits could make to other Administration objectives. First of all, their definition of the problem: The Administration has chosen to present the financing problem as one which requires the adoption of massive benefit cuts or facing the most devastating bankruptcy in history on or about November 3, 1982, coincidentally the time of the next congressional election.

Now, in point of fact, the Administration's benefit cuts are designed not only to reduce benefit payments to the point where the income of the system would fully cover the outgo, but are designed so that within a five-year period there would be a very large increase in social security reserves. In addition to defining the problem in a way which requires very large increases in the reserve funds to be built up over a short period, they have defined acceptable ways of reaching this goal so that huge benefit cuts would appear to be inevitable. That is, they are now attempting to rule out having the OASI program—which for the next few years, although not after that, has greater expenditures of low income—borrow from the hospital insurance fund, which in the next few years will unquestionably have an excess of income over outgo. This piece of a solution is ruled out by the Administration on the ground that in the 1990's hospital insurance will need the money. But in the 1990's, OASI expenditures as a percent of covered payrolls or as a percent of gross national product will be less than today. We do not have a situation in which, as some people seem to think, there is a continuing increase in the ratio of older people to those usually thought of as of working age. During the next 30 years, when the so-called "baby boom" generation born after World War II is in the labor force, their numbers will offset the increase in those over 65. In fact, from about 1995 to 2005, the numbers over 65 won't increase very much because of the low birth rates in the depression years of the 1930's. So there is no good reason to rule out this partial solution of a problem where OASI has too little money for a few years and hospital insurance more than it needs.

The Administration also rules out any infusion of general revenues into the system and by implication even borrowing from the general treasury, and since they also rule out increases in social security taxes and insist on building up the reserves—presto, the only possible solution is huge benefit cuts. What seems to be missed is that if you allow a person to define a problem the way he wishes and rule out all possible solutions to either that problem or a redefined problem except the solutions that to him are acceptable, you have worked into the premise the notion that only his solution is possible.

But let's see. Suppose the problem were defined as the need to cover outgo in the OASI fund during the next several years realizing that costs as a percentage of payroll were going to decline during the next 30 years. Then one could take a very minimal approach to the current OASI financing difficulty and (1) borrow from the disability insurance fund and the hospital insurance fund, both of which have more income than needed for benefit payments during this crucial period. If, in addition, the system had the authority to borrow from general revenues, with the repayment at interest, which might or might not be needed depending on economic conditions, such borrowing authority could take the place during the immediate period ahead of large build-ups in the trust funds. Thus if the problem is redefined, it can be met on a minimal short-term basis if one wants to handle it that way. Under such an approach, under the Reagan economic assumptions, there would be no need to borrow from general funds at all since inter-fund borrowing would be sufficient.

Under somewhat more realistic economic assumptions for the next few years, under this plan, the OASDI fund might have to borrow somewhere around 5 percent of the amount it will take to pay promised benefits. The Administration wants to reduce benefits by these huge amounts over the next five years only because it wants to build up a substantial reserve, increase benefits for people who are still working, cut social security taxes, cover the possibility that the economy will get much worse than it is today (projecting a negative growth rate for five years).

It is convenient for the Administration to take the stand on social security for reasons that have little to do with the social security program. The rapid build-up in social security funds will show up as contributions to balancing the unified budget (even though by law the funds have to be held for the purpose of paying social security benefits and administrative costs). Moreover, the final result of such cuts down the road will be a much smaller, much less effective social security system, with the corollary that social security taxes can be reduced even below present levels and thus the role of government in American society curtailed, and total expenditures for government programs, including social security, pushed back to a much lower percentage of gross national product. The Congress needs to decide, then, whether they want a permanently much less effective social security system; it is not at all a question of having to make these cuts in order to prevent a default on payments November 3, 1982.

Now, so far, I have discussed only a minimal plan for meeting social security financing over the next 30 years. If, on the other hand, the Congress wishes to accept the definition of the problem as given by the Administration, and agree that in addition to dealing with the 5 percent or so shortfall in income to the old-age, survivors' and disability insurance fund for the next few years, but rather agrees

that it is important or desirable instead of a general revenue loan provision, or an addition to it, providing for a rapid build-up in the size of the trust funds—that, too, can be done without reductions in current benefits or benefit protection for current workers. There are two ways in which this could be quite readily done. One could provide for a direct increase in the overall social security contribution rate, while at the same time reducing the individual's income tax because of the payment of social security taxes. This could be provided for either as an adjustment at the beginning of the income tax computation, a partial credit at the end of the computation, or a deduction could be provided similar to that now allowed for State and local taxes but with the additional point that the standard deduction be modified to take this change into account. Employers now may deduct social security taxes as a business expense, but employees not only pay a social security tax but pay an income tax on their social security tax.

This approach would not necessitate any use of general revenues, would be a part of the individual income tax reductions about to be considered in the Congress in any event. Combining both the increase in the social security tax going to OASI with taking social security taxes into account on the individual income tax return could produce a significant reduction in total taxes paid. For example, if the presently scheduled 1990 rate for the cash benefit program of 6.2 percent were moved up to 1982, then the combined change suggested would produce a net reduction in the combined amount of personal income taxes and social security taxes that workers had to pay of $8 billion or more. Such a plan would build social security reserves at a somewhat faster rate than the Administration proposes by benefit cuts, but not a great deal more. It would produce a major contribution on the part of the social security system to the balancing of the overall unified budget, but, of course, it would not reduce overall government expenditures nor shrink the protection and importance of this basic government program in the long run.

Another possibility, proposed by Chairman Pickle of the Social Security Subcommittee of the Ways and Means Committee and by Barber Conable the ranking Republican on the full Ways and Means Committee, would be to provide for the financing of one-half the hospital insurance program out of general revenues with a consequent shift of part of the social security tax now going to Medicare over to the cash benefit program. This plan does not affect the size of the budget deficit in the unified budget, but rather shifts the location of part of the deficit, removing it from OASI and increasing it in the general treasury account.

It is too bad that the Administration has chosen to present the social security financing problem in such exaggerated terms as "bankruptcy" and "calamity." They are apparently seeking to force quick action on a pretty complicated subject and in a way which would undermine the promises that have been made both to contributing workers and to present beneficiaries. I would hope that the Congress would resist the desire of the Administration to develop a compromise on their benefit cutting proposals. Such cuts are neither necessary nor desirable. Social security protection is not too large. Benefit levels and replacement rates are quite modest. There are no add-on excessive, irrelevant benefits as the Administration implies. What they call "welfare elements"—presumably benefits not strictly related to past contributions and earnings—serve a very important social function, particularly for women, and while such provisions might well be a reason for some general revenue funding of the system, they should be preserved.

In this testimony I have not discussed the question of whether it is desirable to take action now to deal with the possibility of increased social security costs sometime after the next century, particularly in the period 2025–2050. I've gone into this matter in considerable length in my testimony before the full House Select Committee on the Aging. Perhaps it is sufficient here to say, in summary: There is no reason to expect that in the long run the economic burden of supporting the present social security law will be greater than it is today.

(1) It is not at all clear whether, and to what extent, there will actually be an increase in the ratio of those drawing benefits to those paying in.

(2) The total number of dependents per worker—old people and children—will not increase; there will be more older people but fewer children.

(3) It can be expected that the real wage level will be much larger in the long-range future than it is today—perhaps about twice as high by 2025 after social security taxes—so that any increase required in social security contributions would be easier for workers in the future to bear.

(4) Under present law, social security benefits as a percentage of gross national product show a considerable drop between now and the early part of the next century and a relatively small increase thereafter.

(5) Finally, the decrease in the part of workers' compensation subject to social security taxes may well have been exaggerated.

This matter is discussed in considerable detail in Appendix C to my testimony before the full Committee

Ms. OAKAR. Thank you very much, Commissioner. If you have no objection, I would like to send you some written questions.

Mr. BALL. I would be happy to try to answer them.

[The written questions submitted by Chairwoman Oakar, along with the answers subsequently received from Mr. Ball follow:]

Question. Your assessment of the short-term deficit differs from Mr. Myers assessment. In light of your testimony, which indicates that HI funds with some infusion of general revenues would be adequate to solve the financial problem, how do you explain the Administration's proposals? Are women more likely to be harmed than others?

Answer. The Administration's benefit cuts are designed not only to reduce benefit payments to the extent that the income of the system would fully cover the outgo, but are designed so that within a five-year period there would be a very large increase in social security reserves. They also propose to raise sufficient money during this five-year period to increase benefits for people who are still working, cut social security taxes below the rate scheduled for 1985, and cover the possibility that the economy will get much worse than it is today (projecting almost no growth in the economy over the five-year period). Under this definition of "the problem," they urge benefit cuts (and one liberalization) which over the next five years would amount to a net reduction of $82 billion.

If instead one were to define "the problem" as needing to have enough income to cover social security expenditures, one gets a very different answer. Using the Administration's economic assumptions, there is no problem. The only action needed would be to authorize the old-age and survivor's insurance (OASI) program to borrow from the disability insurance (DI) program and the hospital insurance (HI) program. Even if one looks at the cash benefit program—OASI and DI combined—there is still $6.2 billion in the funds at the end of fiscal year 1985 according to the Administration's own estimates. Under present law, if HI is also included, the social security system, as a whole, gains $15 billion during the five years.

The year-by-year figures shown by CBO for the funds combined using the budget economic assumptions (similar to those of the Administration) are as follows: a shortfall of $1.3 billion in fiscal year 1982, causing the funds to drop from $47.5 billion at the end of fiscal year 1981 to $46.2 billion at end of fiscal year 1982; a loss of $1 billion in 1983, with the funds dropping to $45.2 billion. After that, income exceeds expenditures: by $0.5 billion in 1984, by $12 billion in 1985, and $23.8 billion in 1986, raising the combined trust funds to $81.6 billion at the end of fiscal year 1986.

If there is no social security financing crisis under the Administration's expected economic conditions, why have they proposed $82 billion in net benefit cuts over the next five years and a permanent reduction in social security protection of about one-fourth--one-third reduction for disability protection and over two-fifths reduction for those applying for benefits at 62? There would seem to be several reasons.

(1) First of all, it needs to be said that they do not believe the country should rely on their economic projections. Fair enough. I would certainly agree that much more pessimistic economic assumptions should be used to get a more realistic picture of what may lie ahead for social security financing in the near term. The alternative, much more pessimistic (realistic) assumptions of the Congressional Budget Office (CBO) show that interfund borrowing alone is not enough. Under the CBO assumptions, the cash benefit program, OASDI, has a shortfall of $38.7 billion over the five-year period and HI has an excess of $21.9 billion. Using the assets of the combined trust funds would cover the deficit of $16.8 billion and still leave the combined social security funds with $7.5 billion at the end of the five-year period. Actually, however, because of the uneveness of the size of the annual deficit and the need to have money on hand to cover expenditures as they arise, under the CBO estimates it would be necessary to have additional amounts available during the five-year period even though at the end of five years the combined programs come out approximately even.

Under the CBO assumptions, a minimal approach to solving the social security short-term deficit problem would call for not only interfund borrowing but authority to borrow from the general fund, at least for the short term, on a limited basis.

This is completely feasible approach because, in general, conditions over the next 25 years are quite favorable to social security financing. During this period the large number of children born in the period from 1940 to 1970—the so-called "baby-boom"—will be paying into the social security system and offset the increase in the

number of people over 65. In other words, the relationship of payers-in to takers-out of the social security system remains relatively stable over the next 25 years. With even modest increases in productivity, the result is that social security expenditures as a percentage of covered payroll or as a percentage of GNP drops somewhat during this period.

(2) Another reason for the Administration to propose benefit cuts is that excess income over expenditures for social security reduces the overall deficit in the unified budget. In other words, the Administration is, in part, seeking to cut social security benefits in order to help balance the general budget. Under the Administration's assumptions, their proposals would result in nearly $100 billion of excess income over outgo during the next five fiscal years—$15 billion excess without changing present law and an additional $81.9 billion from the proposals—$81.9 billion net, from $88.4 billion in benefit cuts minus $6.4 billion from increasing benefits for those who work after 65.

(3) The Administration is quite frank about another objective. By 1990, the proposed one-fourth cut in benefit protection would allow lower social security contributions than the rates being paid today. Thus under the guise of restoring health to a system about to collapse, the Administration proposes to reduce its financing and permanently reduce the protection provided, ending up with a much smaller, much less adequate social security system. This result fits in with the objective of reducing government activity and helps them toward their goal of reducing all Federal expenditures to 19 percent of GNP as compared to 22 to 23 percent today.

You also ask in this question whether women are more likely to be harmed than others by the Administration's proposals. The answer is clearly "Yes." I have detailed the particularly harmful effects on women in my prepared statement in the section headed, "Impact of the Administration's Proposals on Women," and will not repeat the material here. Just let me say that the elimination of the minimum social security benefit particularly effects women because three-fourths of the three million present recipients of the social security minimum benefit are women. Clearly the elimination of benefits for young survivors and dependents 18 to 21 attending school particularly affects low and median income widows and their children. Computing average earnings on which benefits are based over three additional years particularly affects women because they are more likely than men to be working at home for part of their careers and this proposal, in effect, reduces the number of low-earnings or no-earnings years which can be eliminated from the computation of the social security average wage. The reduction in the maximum amount of benefits payable to a family will hurt particularly families with women and children dependents or survivor families made up of widows and orphans. The combination of proposals which reduce benefits for people who apply for retirement benefits prior to age 65 will particularly affect women since almost 80 percent of women apply for benefits prior to 65. The one-third cut in disability insurance protection has a particularly harsh effect on women because the proposals would eliminate the protection entirely for people who do not have a very recent attachment to the labor force. Since women are more likely than men to have periods of work at home, they are more likely than men to lose disability protection under these proposals. In general it may be said that all the proposals for reductions in protection hurt most those who have the least leeway to adjust to a lower level of living. Since women beneficiaries are poorer than men beneficiaries, they are hurt more by such proposals as the postponement of the 1982 cost-of-living increase for three months.

Question. Would you please give your assessment of the most pressing issues women face under the present system? What, in your opinion, should be done about those issues in the future? Is the refinancing problem a roadblock for these reforms?

Answer. Most of the discussion about the treatment of women under social security concentrates on questions of equity—the fairness with which one group of women is treated compared to another group, say those who work in the home compared to those who work for market wages.

However, it will not help women very much if, in the name of equity, the social security system is changed so that large numbers of them have less protection than they do today. A major—perhaps the major—"woman's issue" in social security is the inadequacy of benefits. And it follows that the most important changes that would help the average woman are changes that would increase her social security protection. The social security beneficiaries who are the worst off are elderly nonmarried women—both those previously married and those never married. Relatively few women workers are eligible for sizeable private pensions because they are less likely than men to have worked long enough to be eligible in industries that have good plans. Moreover social security benefits for women workers, on the average, are lower than those for men because their wages were lower and they worked less regularly under the program.

Widows' benefits are also lower than those for retired men because even though, since the 1972 amendments, the full rate for widows who apply for benefits at 65 or later is equal to the retirement benefit rate, the wages on which a widow's benefit is based may have been earned long ago when wages were lower.

The change in social security that would help women the most, therefore, would be to increase benefits going to the single retired worker and to widows. Along with increasing benefits for single workers and for widows, women would be helped particularly by adding additional drop-out years to the computation of the average wage, by making full-rate benefits available at any age to disabled widows and widowers and to disabled wives, and by providing for a transitional or training benefit for widows below age 60 who are not otherwise eligible for monthly benefits and who have been homemakers.

It is also of the greatest importance to women to maintain some of the provisions in present law which, even though not sexually determined, are distinctly favorable to women. For example, the weighted benefit formula which is designed to replace a greater proportion of prior earnings for the lower-paid person than for the higher-paid is of great importance to women workers because of their lower average earnings and the fact that many will be out of the labor force for substantial periods while raising a family. For the same reason, the drop-out provision of present law which allows a worker to have the five years of lowest earnings ignored in the computation of the average wage upon which benefits are based is of great importance to women.

It seems to me that what we need are a series of improvements in the law which, while protecting existing rights and improving the adequacy of benefits also address the legitimate equity questions that have been raised. Women shouldn't be asked to trade the goal of benefit adequacy for more equitable treatment.

Let me turn temporarily then from benefit adequacy to equal treatment. I would like to try first to distinguish between some rather vague and general charges of discrimination against women under social security, which by and large are in error, and some specific equity questions which I believe have merit.

The vague and generalized charges might lead one to believe that women as a group get less from social security than men do or, at least, that women workers get less protection for their contributions than men workers do. Both of these notions are quite wrong. If one compares the treatment of men and women workers who contribute to the program and see what each group gets for its money, the result is very favorable to women. The reason is that women have a longer life expectancy, fewer of them work beyond 65 (and so have fewer benefits withheld under the retirement test), and they receive a greater advantage from the weighted benefit formula; all of this more than compensates for the fact that men workers' accounts generate more secondary benefits. If one were to leave all the other provisions of the social security program exactly as they are now written, but set separate contribution rates to cover the cost of cash benefits derived from the wage records of women workers and those derived from men workers, the rates, according to the Social Security actuaries, would need to be about one-fourth higher for women workers. Of course, if one were to compare all the benefits that women get as a group (based on both their own wage records and those of their husbands), to the contributions that women pay, the benefit-contribution relationship would be considerably more favorable to women. This is true for many reasons, but most importantly because so many women get wives' and widows' benefits without making a specific contribution, and because, again, on the average, they live longer. According to the Office of the Actuary of the Social Security Administration, about 28 percent of the payments into the system are due to female employment, and about 54 percent of the benefit payments are made to female beneficiaries.

Now, so much for the idea that women workers subsidize men. There are real problems but this is not one of them. There are four issues which seem to me to be real ones and which need to be addressed. I am not at all sure that they are correctly labeled as issues of discrimination against women. The first two I shall outline, for example, raise questions of equity as between couples where two persons work and couples where only one person works. To the extent that there is an inequity to the disadvantage of the working couple, it seems to me that the inequity is as much a disadvantage to the husband as to the wife. But whatever we call them there are four real equity issues:

1. Two couples who have the same total earnings will usually get higher retirement benefits if the earnings were earned by one earner rather than by two

For example, where only the husband works and benefits will be based, say, on average yearly earnings of $9,000, the benefit (according to the June 1979 benefit table) would be $560.60 a month for the husband, and $280.30 for the wife, a total of $840.90 a month. However, if the husband had average earnings of $6,600 and the

wife had average earnings of $2,400—combined earnings of $9,000—his benefit would be $456.50, and hers would be $244.50, a total of $701.00, or $139.90 less than our previous example.

Now some of this difference is justified. The married woman who works in paid employment gets additional protection because she is insured in her own right—disability protection for herself, survivorship protection for her husband and children, the right to draw benefits regardless of whether her husband works or not, and rights that are unaffected by divorce or remarriage. From a "money's worth" standpoint, this additional protection partly offsets the lower benefit rates in retirement. However, the differential is frequently greater than can be justified by the additional protection.

2. The concern of working wives that they do not get their "money's worth" in additional protection for what they pay

Under the law today, an individual always gets the benefit to which he or she is entitled on the basis of one's own wage record. In addition, a payment is made to wives and husbands, or widows and widowers, to the extent that the spouses' or widows' and widowers' benefits exceed the amount payable based on the individual's own wage record. In the absence of a personal wage record, the individual, of course, gets a full benefit as a dependent without specific contribution. This means that in many instances the contributions that a working spouse pays either does not increase the benefit level that the spouse would have gotten in any event, or does not increase it to an extent commensurate with the contributions paid. As just discussed, there are some additional rights which flow from being insured as a worker, but these additional rights are frequently less than the value of the contributions paid by the working spouse.

3. Sex-based distinctions

Most of the gender-based distinctions that were originally in the social security law have been eliminated either by changes in the law or by decisions of the Supreme Court. However, there are two remaining distinctions of some importance. Both favor women. Under present law a wife of any age will be paid a benefit on the retirement or disability of her spouse if she stays home to take care of the children. This is not true of a husband.

Secondly, all benefits derived from the wage records of men who became 62 in 1974 or earlier are lower than they would be if the average monthly wage provision applicable to women were applied to these men. Moreover, some additional benefits would be payable if the insured status provisions for men who became 62 in 1974 or earlier were the same as those for women. The insured status and average monthly wage provisions have been made the same for men and women for those who reach 62 after 1974.

4. The lack of an independent wage record for the person who works at home means that divorce will result in inadequate recognition of the economic contribution of the homemaker.

Under present law a wife's or widow's benefit if paid as a matter of right to the wife or widow. The wife may elect to have a separate check or, if she chooses to combine her benefit with that of her husband, but the joint check must be signed by both to be negotiated. In a real sense these benefits are a recognition of the economic contribution of a homemaker. However, under present law, if a woman is divorced before the marriage has lasted ten years she loses all rights to wife's and widow's benefit. Moreover, even if she meets the 10-year requirement, the amount paid as a wife (one-half the amount payable to the former husband on retirement or disability) will be inadequate for a person living alone. On top of that, the divorced woman gets a benefit only when her former husband has retired.

It is much easier to delineate the problems of present law than to offer solutions which, at the same time, do not create as great or greater problems. There are four major approaches which have been suggested and a large number of variations within each approach. They are:

1. The establishment of presumed wage credits for the person who works at home;

2. The payment of a flat benefit from general revenues on the attainment of a given age, total disability, or possibly to survivors' with the addition of a wage-related, contributory benefit on top of the flat payment—the so-called "double-decker";

3. Sharing market wages between marriage partners and substituting benefits based on these separate wage records for wives' and husbands' benefits and widows' and widowers' benefits; and,

4. Finally, an eclectic approach of special provisions designed to correct particular problems.

I have little problem in dismissing the first two proposals for the reasons indicated below:

1. The coverage of homemaker services

There is no equitable way to determine how much the presumed wage credit should be. Should the woman maintaining a home for a husband and several children get only the same credit as the woman maintaining a home for one child and with the help of a maid?

What about the family where the woman both works and maintains a home for a husband and children? Shouldn't she get credit for both homemaking and paid work?

What about the situation where the husband pitches in and does a substantial part of the work?

Who pays? Presumably the family has to pay additional contributions on the assumed wages of the wife. Should both the employer and employee rate be paid or just the self-employed rate? If just the self-employed rate, is this fair to others? Would it be fair to take a contribution for such credits out of general revenues, as has been proposed, further tipping the scale against the single worker?

Should the coverage be voluntary or compulsory? Voluntary coverage doesn't work in a system designed to be compulsory. Those who stand to benefit the most are the ones who join at the expense of all other contributors. Yet compulsory coverage of homemakers in place of wives' and widows' benefits would be hard to enforce and could in some cases result in less protection for more money than under present law.

When does a homemaker retire?

It seems to me that the policy and administrative objections to this proposal are overwhelming.

2. The double-decker

A double-decker alone in pure form does not in itself solve the issues that have been raised. In fact, substituting a flat dollar benefit equal to the present minimum benefit for the present adult survivors' and dependents' benefits (as in the HEW and Advisory Council study versions of this proposal) would lead to major reductions in protection. To partly meet such problems, the plan outlined for study by HEW adds features to the double-decker which are unrelated to the basic plan and could be added just as well to the present system. In other words, the solutions to the "women's problems" provided by the double-decker alternative are not so much the double-decker as the features that have been added to it.

The question, therefore, of whether we want to radically modify our present social security system and turn to a double-decker approach should be decided on the fundamental issues related to the double-decker; the plan cannot be looked at primarily as if it were a way to deal with the equity and adequacy questions for women. Much more is involved.

The important feature of the double-decker is that if would shift to general revenue support a very large part of the cost of social security and that it would do this by paying a flat benefit, the same to all, as a bottom deck without regard to past contributions or earnings or income and assets. It seems to me that a shift to a double-decker proposal carries with it a great risk that the lower deck would be means-tested. It seems to me that few people will want to apply everyone a flat pension out of general revenues—including those working in non-covered employment such as Federal employees, and including those who are quite well off. Perhaps if we had started with a general pension, as is the case in Canada and some of the Scandinavian countries, a wage-related benefit could have later been added to the flat benefit and a means test for the total system avoided. It seems to me now, however, that the idea of paying everyone a flat amount from general revenues without regard to past contributions would very likely result in a great enlargement of the Supplemental Security Income program at the expense of contributory social insurance. And I think this would be a mistake; it is my belief that there are major advantages in relying on the earned rights of contributory social insurance as compared to increased reliance upon general revenue financed assistance programs.

3. Earnings sharing

Personally, I find the earnings sharing approach philosophically attractive. The idea that marriage is an economic partnership and that the partner who earns less or stays at home shares equally in the production of the total family income is an idea that I can accept with enthusiasm. No one yet, however, has worked out a fully acceptable plan. The last Advisory Council on Social Security studied this approach at considerable length and included in an appendix to the report a detailed earnings sharing plan. Although this plan which was developed by the Council meets some of

the objections to earlier earnings sharing plans (partly by providing additional protection and a long transitional period, making for a cost of about 0.35 percent of payroll), the Council was never fully satisfied that it had the answer. The Council called "earnings sharing" the ". . . most promising approach" but stopped short of full endorsement.

During the study, however, it became crystal clear that a pure form of earnings sharing would not work well. For example, in a typical family where one earner earned much more than the other, if earnings were shared and the higher earner became disabled, benefits for the family would be much less than under present law. Thus additional costs and major complications have to be introduced to avoid major deliberalizations from present law.

Although I agree with the Council that earnings sharing is the "most promising approach," solving some of the problems I have outlined, it is also fraught with many difficulties. The introduction of earnings sharing into the social security system would be the most fundamental change in the program since the amendments of 1939.

I agree strongly with the Council's statement that such a fundamental change in the program needs to be carefully considered and thoroughly debated by citizens' and interest groups throughout the country and that the proposal has so far been considered by a relatively narrow segment of our society—social security experts and organized women's groups. As the Council says, the changes touch some of the most basic institutions and traditions of American life—marriage, the family, and care of dependents and survivors. There are much more than technical difficulties involved. The plan involves compelling people to share their earnings equally for social security purposes regardless of the circumstances of the individual case. The Council correctly, in my opinion, dismissed unanimously any idea of a voluntary plan, but at the same time I can imagine many cases where such compulsion will seem unfair—for example, in the case of divorce, when a newly established family will have much less in the way of protection because of the required earnings sharing in a previous marriage.

Perhaps the biggest problem under present law is the treatment of a divorced homemaker. Earnings sharing at divorce would generally improve protection for this group. However, it would also reduce protection for the higher earner after divorce, which will sometimes seem equitable and sometimes not, and it would, of course, create rights to disability insurance for the spouse who had worked at home. Desirable as this may be, it would seem inequitable unless disability protection is also provided for all homemakers while they are married. In the plan that the Council developed such protection is provided, but, of course, at considerable cost (0.26 percent of payroll).

In the absence of a more or less global solution such as an acceptable earnings sharing plan, I am at present inclined toward an eclectic approach dealing with the specifics of the issues raised. Although I am not proposing an immediate increase in benefit protection under social security, I do believe that whenever such an increase is made it can be designed so as to solve a major part of both the adequacy and equity questions for women under social security. I would propose that at the time of a future benefit increase the primary insurance amount under social security go up by 12½ percent and the spouse's benefit ratio be reduced from one-half to one-third. At the same time I would propose that the Advisory Council's recommendation for the "inheritance of earnings credits" be adopted. Under this plan, a widow who has been primarily a housewife would have her husband's earnings on which to build when she herself entered the labor market. The result of these changes is to leave the retirement benefits for couples where only one person works the same as they are today, but to improve the protection for single workers, for widows, and for couples where both husband and wife work. This would bring much closer together the retirement benefits for couples who have the same total earnings regardless of whether the earnings are attributable to one person or two (one of the major problems in present law I outlined earlier). The remaining difference can be rationalized on the grounds of the additional protection which two-earner couples get: more disability and survivors' protection and the right to draw benefits regardless of the retirement of the other. Much more often than today, the working wife would receive a benefit based entirely on her own wage record rather than partly on her wage record and partly as a wife, (another of the major problems of present law previously described).

Equally important, the adequacy of benefits for women would be greatly improved since both widows and single women workers—the most disadvantaged group—would particularly benefit from the change.

In addition, I would directly address the few remaining sex based distinctions in the law, paying all benefits on the wage records of either sex without distinction,

although there is some question whether in the near future it is desirable to incur the high short-term costs that would come from eliminating the discrimination against older men in the determination of insured status and benefit amount.

I believe, as recommended by the Advisory Council that we should also add to the program full-rate disability benefits at any age for widows and widowers, and disability protection for disabled wives and husbands.

The protection of a divorced spouse who has been primarily a homemaker is the most difficult problem to deal with. None of the proposals deal satisfactorily with the issue. I am not at all satisfied with the compulsory sharing of the earnings record at divorce, because of its effect on the benefit protection of the higher-paid earner, but neither am I satisfied with the present provision. I do hope that before any change is made we can come up with something better. Canada has adopted an earnings sharing plan at divorce quite recently. Perhaps we can learn from their experience.

Let me emphasize what is perhaps obvious: that it is easy to see the problems of a going system and to be attracted by what appear to be "solutions." Analysis will show, however, that all the "solutions" so far proposed introduce new and major problems—even what I am proposing has the major difficulty of increased cost and clearly must await a more favorable time. All the other proposals that I have studied take away important protection as well as grant new ones. It may well be that for the time being the best course is to continue the study and the debate. Present law is not nearly as bad as it is sometimes painted, and I for one am not yet convinced that radical change is called for.

In my judgment, given the present pressure on social security financing, it is unwise to press for desirable changes in social security that necessarily cost a great deal of money. I am afraid that the result of such pressure for change would be program deliberalizations. The refinancing problem in social security is a road block to improvements. The danger is that those who wish to cut back on social security may be able to successfully use dissatisfaction with some parts of the present program to sell a "solution" that makes the program less adequate for the great majority while giving the appearance of doing something about a particular complaint. A good illustration of this danger was contained in the Department of Health, Education and Welfare's report on women's issues which examined the alternatives of the double-decker system and a shared-earnings plan. The proposals made would have taken away a great deal of protection that people now have. Unless the Congress is willing to vote for additional financing beyond that which is required by present law, there is danger that in trying to keep costs down the interests of women who work for pay will be played off against the interests of women who work at home.

Question. The more I read about European social security systems, the more I am struck by how antiquated ours seems to be by comparison. Per capita, European countries spend more on their social insurance programs than we do. They also provide a more adequate income floor under their elderly. I wonder if you have given this matter thought, or could offer suggestions about what direction our system should take in the coming years.

Answer. Until quite recently, European social security systems have, in general, been more generous than the United States' system. In recent years, however, our system has been considerably improved. Although there are further improvements to be made, I believe we are definitely on the right track. Social security benefits in our system are now kept up to date automatically with the level of living in the country so that at the time benefits are computed they will bear the same relationship to recent earnings that they do for people applying for benefits today. Once on the rolls, the benefits are inflation-proof and tax-free. In general, our system helps lower/paid workers more than the typical European system because of our weighted benefit formula and dependents' benefits. Our system is less discriminatory as far as women are concerned.

In terms of the amount of protection furnished we are still somewhat below that furnished by the three or four most generous systems, but otherwise the protection furnished by the American system is comparable to, or better, than that of most other countries.

Although the material is somewhat now out of date, it may, nevertheless, be interesting to the Task Force for me to include some summary material on this point that I developed at the time I last looked into this question. When "Social Security: Today and Tommorrow" was published by Columbia University Press in 1978, I had this to say about the comparison of the United States' system with those of other advanced countries:

"There is no easy way to make these international comparisons. The systems differ greatly from one country to another. Most pay a supplementary benefit to a

spouse, but West Germany, Italy, and Austria do not. Greece, the Philippines, Poland, and the United States have a weighted benefit formula. Norway, Sweden, and Canada achieve much the same effect by having a flat benefit supplemented by an earnings-related benefit. Many base benefits on a career average, and others on a high-five average, or even less (Italy has a high-three, Greece, a high-two). Most systems are in a state of transition, with higher benefits promised for the future. Most countries, but not all, relate benefits to some extent to continuity of employment under the system.

"Any single comparison is therefore bound to be incomplete, but it is an interesting question and deserves at least an approximate answer. An approach that was developed by Max Horlich in an article in the Social Security Bulletin of March 1970 compares benefits to earnings in the year before retirement (the replacement rate) for the worker (and separately for the worker and spouse) regularly earning the average wage for male workers in manufacturing. This approach has been applied now to data through 1975. Haanes-Olsen found in comparing the replacement rate in the United States to 11 other countries with advanced social security systems that we occupied a relatively low position when the single beneficiary comparison was made. Austria, France, West Germany, Italy, and Sweden had significantly higher rates; Canada, The Netherlands, Norway, and Switzerland had rates slightly higher or about the same as the United States' rate of 38 percent. (It is to be noted that this is a replacement rate for average workers in manufacturing industry and is much lower than the United States' replacement rate in 1975 of about 43 percent for average workers in general.) Denmark and the United Kingdom have much lower replacement rates.

"When the comparison was made for couples, the 57 percent replacement rate of the United States looked somewhat better. Only three countries—France, Italy, and Sweden—had very much higher replacement rates (partly because Germany and Austria do not have an additional benefit for a spouse). In this comparison the United States had replacement rates which equalled or exceeded those of the other eight countries.

"But are these fair comparisons? Wage rates in Italy, for example, are so much closer to subsistence than in the United States that a high replacement is required just to meet a subsistence standard. What is the replacement rate in Italy"?

"Your point about low wages is well taken in the case of Italy. The replacement rate for the average earner in manufacturing in 1975 was 67 percent for both the single worker and the married couple. There is no supplement for a spouse in the Italian system.

"*What about West Germany?*

"The replacement rate for the average couple in the United States is now higher than in West Germany partly because Germany does not pay a supplement to the spouse; but the rate for the worker alone is higher in Germany. The comparison for the couple was 57 percent in the United States and 50 percent in Germany, and for the single worker 38 percent in the United States and 50 percent in Germany. However, in the German system benefits for those on the rolls are kept up to date not just with prices but with wages, although there is a considerable time lag in the adjustment.

"The French system, which has a spouse's benefit, is more like the United States' system. For those retiring in 1975 the replacement rate in France for the average male worker in manufacturing was about 46 percent for the worker alone compared to the 38 percent for the United States, and 65 percent for the couple as compared to 57 percent for the United States. Although to a lesser extent than in Italy, the high replacement rates are in part dictated by low average earnings. France also has widespread coverage under private pension plans for workers in manufacturing industry, although in 1975, on the average, they added only about 8 percentage points to the replacement rate.

"Perhaps, in summary, one can say that the cash benefit protection furnished the average earner by the United States social security system is still somewhat below that furnished by the three or four most generous systems, but is either quite comparable or better than that of most other countries. This is a very recent development."

As I said earlier, the most glaring weakness in our social security system is the inadequacy of benefits for older women. In general I would like to see social security benefits for single workers and for widows increased. Specifically, I would propose that the rate for retirement benefits be increased by 12.5 percent, but that the spouse's benefits be reduced from one-half of the retirement to one-third. As a result, couples in which only one person worked would get the same replacement percentage of previous earnings as in present law, but single workers would get

more, and couples in which both persons worked would get more; widows and children would also get more.

This is an expensive proposal and may have to be approached gradually. It would require an increase in the combined employer-employee contribution rate of about 1.5 percent of payroll, but it would greatly increase the equity and effectiveness of the program. If social security is to do a better job of contributing to income security in the later years, improvements need to be made in benefit levels for elderly people living alone—particularly women.

The proposed change in the benefit arrangements would also mean that when a man and wife both worked and had benefits on the basis of their own earnings records, their combined benefits would much more often than at present be higher than when only one member of the family worked. And much more often under this proposal than today, a married woman who went to work would get benefits entirely in her own right rather than partially as a dependent of her husband.

In almost all cases, if she worked regularly under the program for a substantial period of time, her own benefit would exceed the one-third of her husband's benefit that she could get as a dependent.

We also need to improve protection for divorced homemakers so as to recognize their economic contribution to the previous family unit. In the long run we may want to move to a plan of shared earnings between husband and wife, although up until now all the plans that I have seen have either very major costs attached to them or result in the serious reduction of present protection for many couples. I think it is very important that we not rush to radical changes in social security because of dissatisfaction with some of the provisions without weighing carefully whether the proposed "reforms" actually improve overall protection. I have found on analysis that many plans put forward as if they were going to help the contributor—such plans as those that would eliminate the weighted benefit formula and dependents' benefits and substitute a program relating benefits for all strictly to past earnings and double-decker plans—actually reduce protection, particularly for the lower-paid and women. I would be wary of proposals put forward as sweeping "reforms." More often than not they are disguised ways of cutting back on social security protection.

Question. How does the status of women under social security relate to other economic issues, such as employment and private pension coverage? What does this tell us about how we should proceed in the social security area? How does the Administration proposal deal with these issues?

Answer. To some extent the most serious economic security problems for women in retirement are a reflection of their lack of equal opportunity in employment. They are more likely than men to have low-paying jobs with the consequence that they have lower social security benefits. They are more likely than men to work in jobs that are not covered by private pension plans. The present social security system, to some extent, is designed in a way that helps to make up for this discrimination in the work place. It is very important, therefore, for women that we retain those provisions in the social security program, such as the weighted-benefit formula and dependents and survivorship protection, which are of particular help to low wage earners and to those without private pension coverage. The Administration's proposals move in exactly the wrong direction, and in almost every respect are particularly harmful to women. Beyond the specific proposals already made by the Administration, they have pointed a direction which is even more threatening. They have, for example, talked about removing the "welfare elements" from the program and they apparently mean by this modification of those social elements in social security that particularly help the lower-paid and those with dependents. They seem to be suggesting that more of the job now done by social security should be done by the means-tested general revenue programs of Supplemental Security Income.

In testifying before the full Select Committee on Aging on May 21, 1981, Secretary Schweiker said in response to a question: "Why not consider some of the pure welfare aspects and consider them in general revenue. In fact, this disability program was started before we had SSI (Supplemental Security Income), which is a similar program. We have another safety net there. Our point is we shouldn't use two safety nets."

This was not an inadvertence. Secretary Schweiker repeated much the same comment during his interview on "Meet the Press" the following Sunday.

In view of the Administration's expressed desire to reduce or eliminate "the welfare aspects" of the social security program, one wonders what is coming next for disability insurance. Now the fact is, of course, that disability insurance is not a welfare element in the social security system. It is very much like a large-scale group insurance disability program. The benefits are derived from past earnings

and contributions just as in the case of survivors' insurance under social security or retirement insurance. It is not some sort of add-on but an inherent part of the protection against the loss of earned income as a result of the risks which social security systems throughout the world provide for the contributing population—loss of earnings because of retirement in old-age, total disability or death.

But what is going on here? Mr. Stockman, in his testimony before the Ways and Means Committee on May 28, 1981, refers to ". . . the system's continued ability to deliver on its promise of basic income protection for America's retired and disabled workers," leaving out altogether the survivors' insurance part of social security. His statement reaffirms support for disability insurance while ignoring survivors' insurance, while Secretary Schweiker seems to think of disability insurance as a "welfare element in social security," and expresses doubts about whether you should have both disability insurance and a supplemental program based upon need, Supplemental Security Income. Secretary Schweiker apparently does not include disability insurance in defining the basic purposes of the social security system and Director Stockman apparently does not include survivors' insurance.

Ms. OAKAR. Let me ask all of you a question that I asked Commissioner Myers. Do you think that the trust fund ought to be analyzed as part of the unified budget? I think you touched on it, Commissioner Ball, but that is one of my pet peeves, that we do use those funds to analyze balancing the budget and so on.

Should we return to the pre-1967 situation, and have it totally separate from our analysis of the budget or should we continue as we are?

Mr. BALL. I have very strong feelings on that, as you do.

I think putting social security in the unified budget, which was done for the first time in fiscal year 1969, was probably the greatest mistake made in the development of social security.

I doubt very much if we would have these proposals for cuts today if social security were entirely outside the unified budget. There would not be the temptation to make huge slashes in benefits and, therefore, create a big surplus of income over outgo, which can then be used for the purposes of showing a lower deficit in the unified budget.

I have a fairly long appendix on this subject in the statement I gave before the full committee. This statement incidentally, has been put out as a booklet by the SOS organization and is available on request.

I believe on the issue of removing social security from the unified budget you would have the full support of the trade unions, the elderly groups, the disabled groups—both those who contribute to social security and those who are presently the beneficiaries of social security. I think it is very important.

Ms. OAKAR. Commissioner Ross.

Mr. ROSS. I have a slightly different view. I don't regard that issue as getting at the fundamentals of what is involved. I don't think there is any question that in making economic policy for an administration you have to take account of expenditures in social security with all other expenditures and payroll taxes with all other revenues.

So whether you call it a unified budget or not, you cannot manage the economy without taking these things into account. That is what the unified budget does.

I think the proposal to take it out of the unified budget or to go back to where it was before there was a unified budget really is focusing on the fact that social security is a different type of program and that the changes for it should be developed program-

matically as opposed to being driven by the budget. That I fully agree with.

That is why I have proposed this national commission. I think it is important to recognize that this program is big, it is different, and it needs special tools in terms of its reform.

On the other hand, I think it is almost misleading to the public to talk about there being a trust fund. The trust fund is just another accounting device. That is what the unified budget is, an accounting device.

I don't think we should get ourselves so wrapped up in accounting details that we fail to focus on the heart of things.

Because Commissioner Ball said that he did not agree with me at all I thought I would take just 1 minute. I agree with him to some extent; I disagree to some extent, but I think it is important to note that the place where we really differ is in terms of our strategy for reform.

I do not believe that you can take this system and make a tuck and a stitch here and there and deal with the kind of problems that the Congresswoman's caucus has clearly identified relating to the very inequitable treatment of women and do it within that system.

I believe that this system needs radical change. I do not believe that the old boy's network that developed social security and nurtured it over the years fully accepts the need for radical change, and I think that one of the problems that I have always seen within SOS, which I am not a member of, is that it has tried a little too much to maintain the status quo.

I think when the battles SOS was formed to fight are over we will have to go back to being hard-headed about the need for very fundamental change in this system, and I think that day will ultimately come when groups within SOS differ.

It may not be today, there are more immediate battles, but the day will come when it becomes evident a tuck here and a stitch there will not solve the problems you are concerned with.

Ms. OAKAR. Thank you, Commissioner.

Commissioner Driver.

Mr. DRIVER. To go back to your question in terms of the unified budget and inclusion of the social security funds. I thought for a long time that Congress had the discipline to stand this and not use it to the disadvantage of the program.

I am inclined to think that is not true any longer. I believe that the temptation is too great to use the trust funds moneys as a budget balancing device in connection with the overall budget. Surely nobody ever expected that the payroll tax would be used to support the defense system or would be used to support the Department of Agriculture or the Veterans' Administration. A payroll tax has no place in supporting these programs or balancing the budget.

Yet when we consider that yesterday the Ways and Means Committee sat and really almost offhandedly reduced social security benefits by another $500 million to make up for moneys that they had lost over the discussion in other budget areas, with no discussion in terms of the merits of what they cut.

Nobody participated in that. The American public didn't. The Members who were there voted with a show of hands. There was

really no discussion and they slashed another one-half billion out of social security.

Ms. OAKAR. I don't want to be associated with that exercise yesterday but we are indeed, by having the trust fund used to balance a unified budget. The use of the trust fund may not be tangible, but we are indeed using it to balance the budget and to offset other deficits that might come about in other areas that are under the jurisdiction of the Ways and Means Committee.

Mr. DRIVER. That is right and most people do not understand what is going on.

Ms. OAKAR. That could never be done if the trust fund were not part of the unified budget. I am glad you clarified the situation.

Mr. DRIVER. We wouldn't have lost the $2.7 million that included the minimum benefit.

Ms. OAKAR. In Gramm-Latta that is exactly what happened.

Mr. DRIVER. Now they picked up another half million in just a matter of a few minutes without any real discussion on the merits of the system. I think that is wrong. That indicates to me we can't stand off this all thrown into one pot. They should be kept separately.

Ms. OAKAR. I appreciate your comments on that.

It appears to me that several of you are saying that there is a real short-term solution, and that brighter days are ahead. I think, Commissioner Ross, that you believe we should take a comprehensive view and deal with all of the issues relative to the concerns I have, including equitable treatment.

In the short-term would you all agree that it is relatively simple to eliminate the deficit or at least the projected deficit in the old age and survivors benefit assuming we maintain the status quo for the moment?

Mr. ROSS. Yes. As I said, there is a very simple solution which is in addition to the interfund borrowing. Put in standby borrowing authority to repay, so it is not standby borrowing against general revenue, from the payroll taxes that will begin to build up once you get through this difficulty that is created by short-term economic circumstances.

These are solutions that are not different from those used in other Government programs where there are borrowing authorities.

Mr. BALL. I have found something that I agree with Commissioner Ross on. It could be done that way. I am not necessarily of the view that is the best thing for the Congress to do. They may want to address something more fundamental in financing, but it is quite possible and a very reasonable thing to do; the administration's hyperbole is not at all justified.

I do think I ought to comment briefly on Commissioner Ross' characterization of our differences.

One point I will agree with is: Of course, you have to look at social security both in terms of financing and benefits when you are talking about an administration's overall economic policy. That was certainly done before 1969.

Whatever else you may think of economists and those who make fiscal policy, they can add two numbers together. Even though social security is kept separate from the general budget, the two

can be put together for purposes of determining overall economic and fiscal policy.

You don't have to put it in the unified budget to do that.

I would characterize my differences with Commissioner Ross quite differently than Commissioner Ross did. I would say we both want to change the social security system. He wants to change it one way and I want to change it another.

Ms. OAKAR. I have other questions that I would like to submit to you for the record. I was going to ask you detailed questions about the impact it would have on women but you all appear to agree it would have a devastating effect on older women. I know, Commissioner Ross, you and your staff were responsible for that extensive report by HEW related to the inequities of the current system toward women.

Mr. Ross. It would exacerbate the problems, no question.

Ms. OAKAR. I will ask you to answer in writing for our record. I think the wisdom of those of you who have been there is very important to this task force and hopefully we can arrive at some solutions.

Thank you very much.

I just want the audience to know that the Chair intends to proceed until we are finished rather than take a break.

So our next panel includes Dr. Rita Ricardo-Campbell, who is senior fellow of the Hoover Institution of Stanford University and member of the Reagan transition team on social security. She has tremendous credentials relative to this question.

Dr. Richard Burkhauser is a professor of the department of economics and institute for public policy studies of Vanderbilt University and he is the author of the new book entitled "Challenge to Social Security for Changing Roles of Men and Women in American Society." He has a very interesting chapter, that I especially underlined concerning on earnings sharing and fundamental reform in that area.

Eileen Sweeney is the staff attorney with the National Senior Citizens Law Center.

Edith Fierst is formerly of the Interdepartmental Task Force on Women and she is now in private law practice specializing in women's retirement income problems.

Ruth Campbell is the research associate at the National Policy Center on Women and Aging, a very fine department at the University of Maryland.

I am especially grateful to this panel because I know for all of you it was a sacrifice to be here. You all came at your own expense and some of you traveled many miles. I want you to know on behalf of our staff we are really pleased you were able to come.

Perhaps I will begin with Dr. Rita Ricardo-Campbell. Doctor, you may submit your full testimony or proceed by summarizing.

PANEL 2, POLICY AND LEGAL PANEL, INCLUDING DR. RITA RICARDO-CAMPBELL, SENIOR FELLOW, HOOVER INSTITUTION, STANFORD UNIVERSITY; DR. RICHARD V. BURKHAUSER, PROFESSOR, DEPARTMENT OF ECONOMICS AND INSTITUTE FOR PUBLIC POLICY STUDIES, VANDERBILT UNIVERSITY; EILEEN SWEENEY, STAFF ATTORNEY, NATIONAL SENIOR CITIZENS LAW CENTER; EDITH FIERST, ATTORNEY; AND RUTH CAMPBELL, RESEARCH ASSOCIATE, NATIONAL POLICY CENTER ON WOMEN AND AGING, UNIVERSITY OF MARYLAND

STATEMENT OF DR. RITA RICARDO-CAMPBELL

Dr. RICARDO-CAMPBELL. I am going to attempt to set my testimony within the general framework of what I believe about women and social security.

The reason I am doing this is because the testimony is very limited. I believe I was asked late last week and I thought I was asked to testify only on the impact of the early retirement of women proposal. Therefore, the testimony does not speak to—as everybody else that I have heard speak to—the general situation of women and social security.

I have come from the west coast and I did happen to plan to be in Washington, D.C. today and I am happy to be here.

Ms. OAKAR. We are happy to have you.

Dr. RICARDO-CAMPBELL. First, let me say I basically agree with Stanford Ross and I wrote him my dissent to the Quadrennial Advisory Subcommittee on Social Security's Report in 1974–75 that you can no longer tinker with the social security system.

It has a basic flaw. It collects taxes on the basis of individuals and it pays out benefits on the basis of the family unit.

The number of women working has greatly increased in this country. If you look at women from 25 to 64 years of age, over 65 percent of those women are working at sometime during the year.

I am sorry we have no chart to throw up on a screen here but taken from a recent BLS publication—it is in my testimony—it shows the percentage of men is declining in the labor force, the percentage of women is increasing.

Eventually if you look far ahead it is very obvious that women are no longer solely considered as dependents of men.

As a woman who has been married for almost 35 years I have paid into the social security system for 35 years and as a married woman I suspect I will not collect under the present structure as much and probably less than if I had not worked at all.

In other words, the social security system, like the marriage penalty tax in the income tax law, is working against women to work and stay married. There are both these problems involved.

I would like to say that, further, the system has not missed a check to date not because so much has been collected but primarily for two reasons. One is the expansion of coverage of different groups of workers who had previously not been covered. Every time you take in a new group of workers you get a windfall, huge increase in benefits.

The only workers who are now out of the system are the Government workers, Federal, State, and local, and 400,000 nonprofit institutional workers.

If they were taken in, there would be $11 billion increase in an annual lump which would be very useful at this present time because I am in perfect agreement with both Bob Ball and Mr. Driver that, of course, at the end of the 1980's the crunch is over for the short run and you have a quiet period of financial balance until 2010 or 2015 when the baby boom babies start to retire.

The other reason that you have not had any problem is because of that great increase in married women who work. They continuously pay into the system a tax and do not really collect in relationship to that tax.

I know Bob Ball testified that he looks at everything as pooled risks and including in that he had—I quote, "having children and not having children."

To my mind there is nothing about a pooled risk in having children or not having children. Men do not bear children and I think you have to recognize that women are different from men, they do bear children and women and men are both working the labor force and the times have changed; that people are living longer.

Let me backtrack just a minute. I know this is haphazard but the testimony of witnesses has been all over the lot.

The words "trust fund" are not magic words but they are used as magic funds as if the trust fund had some money to pay out.

At the beginning of the year when everybody is paying in, including the higher income earners on their total wages, the trust fund is slightly larger than at the end of the year. But let me say, quite frankly, by the end of the year that so-called trust fund falls down to 2½ or 3 times the monthly payout. It is not a trust fund. It is the most deflated cushion you could think of.

If you thought of leaving your children a trust fund you don't leave that amount of money in relationship to their expenses, that is 3 months of expenses so there isn't a magic trust fund that can solve the problem.

I would like to say that the greatest increase of women working is among older women. This question came up, and I think Bob Myers had a bit of trouble in answering your very pertinent question: Can older women get jobs?

The data show they are increasingly getting jobs and my paper does speak a bit to this point and I would like to pick up a few of the comments.

One comes from a publication "Between 1948 and 1970 the increase in the proportion of the women aged 55 to 64 years in the labor force exceeded the rise for all females."

That is a fascinating figure because it is women and older women who are working. If you begin to think—as an older woman I do think about it—why are women at older ages working today?

There is really no data available about retirement decisions of older women. There is a lot of data about retirement decisions of men and it is quite clear from the literature—and, again, my testimony documents it—it is not primarily for health reasons, it is because they are financially able to retire and, therefore, they do. They want to enjoy life a bit before it is gone. I think that is probably true for women.

However, the life expectancy of older women is considerably greater than that of older men. Men at age 50 have an average life expectancy of 24.6 more years and, therefore, they live to almost 75 years of age. But women will live until over 80. If you have lived and managed to live to age 60, men will live to age 77, women will expect to be living until 82. Men at age 65 can expect to live until age 79 while women at age 65 can expect to live to 83.4 years.

If women at older ages on the average live 4, 5, or 6 years longer than men at the same ages, can it be assumed that they are somewhat healthier than men?

It is true, by the way, that women do see physicians more often than men do but the belief is among physicians and among other people and women especially they just take better care of themselves.

If there is something wrong with a woman, she doesn't put it off quite as long as man does and that proves to my mind absolutely nothing about the health of women as to the final outcome, and that is how long you live.

You have two groups of women. You have women that have never worked who are decreasing in number and these women generally have children who have grown up and for the first time in their life or once they have been young they have the opportunity to do the things that they want to do, and oftentimes this includes working.

Generally speaking, the married woman, as years go on, is younger than her husband because men are dying younger and also because men who live longer become divorced. And the divorce rate is increasing in this country very rapidly partly because of that income tax penalty we mentioned, but I will go into the social security system effect that is involved in a minute.

These women are bored staying at home. They are 15 years on the whole younger than their husband. They are full of energy. They will live to 80. Many of them go to work and they find jobs, low paid, admittedly, in the service industries because in an advanced industrialized society it is the service industries that are expanding, not the manufacturing industries and it is those industries that hire women.

The jobs are there. They are not high paying jobs.

Ms. OAKAR. May I just ask you at this point what percentage of women between the ages of 50 and 60 years actually do work?

Dr. RICARDO-CAMPBELL. Thirty-seven percent of women in 62 to 64 which is slightly less than what would be working in 1976 and 65 percent of men worked. There are two problems with the statistics. BOS Bureau of Labor Statistics always give you 16 years and over. That means you have all those women still in high school, college, and retired and you also have it for the men, do not get fooled, and 100 percent of the men are working. They are not either. They drop down to——

Ms. OAKAR. One out of every three women compared to 65 percent?

Dr. RICARDO-CAMPBELL. One out of two as compared to two out of three.

Ms. OAKAR. Admittedly very low paid jobs.

Dr. RICARDO-CAMPBELL. Generally in low paid jobs. Not all of them. Succeedingly diverse group of women. If you look at frequency distribution of their earnings there is very high paid women in this group and you must realize these women were not brought up to believe that it was all right to work and have children. This is an unusual group of women that are working. While the women today who are 30 years old, will probably much more likely be a very high percentage working when they are 62 to 64. Especially as life expectancy increases a lot of women do not like to stay at home. Their husbands are older, they retire and the problem is it interferes I hate to say this to the men present, in their way of life that they have chosen whether it is voluntary work or whether it is anything else. They certainly do not like to get luncheon. You talk to women whose husbands have retired, the idea of being at home to cook lunch every day is a very great deterrent to the average woman staying at home after her husband retires if she is younger. I mentioned the divorce and the problem that is there. I think that this is one thing that should be looked into. Ironically the 1977 social security amendments actually tried to help low-income divorced women. What they did was to permit entitlement to spouses benefits after 10 years of marriage. Currently what is going on is that a lot of women who have been married 10, 11, or 12 years, are now getting or applying for primary, secondary benefits. Many of them, acknowledged widows at age 60. And there are actually cases of three widows benefits being paid on one primary. This will increase. As this increases the drain on the system—because it does not count for the family maximum because the belief is the benefits are on a family basis and taxes are on an individual basis—so if you think of a family you immediately exclude the divorced wife so the family does not come into it. This is one of the things that is ballooning benefit payments that should be looked into. It is possible, but I could not prove it, that there is a bulge in divorce in recent years. To what degree this is due to the marriage tax which started in 1969 and to what degree it is due to the 1977 amendments that say to a woman who is knowledgable—not all women are—yes, you are entitled to some spouses benefits even if you leave your husband. I do not know, but certainly it should be looked into. I am not sure that that is the solution for handling the problems of divorced women. It certainly is going to break the system eventually if the spouses benefits are retained in this fashion.

Now it is true of course 74 percent or more woman have early retirement and benefits than do men. That is 74 percent in 1977, but note that 62 percent of men in 1977. So there is not such an extraordinarily great differential between the two groups. Women however earn less than working men.

Ms. OAKAR. Fifteen percent more, right?

Dr. RICARDO-CAMPBELL. Yes. It is 12 percent more women. Seventy-four percent of all women with retirement benefits had reduced benefits in 1977 and 62 percent of men. Men are increasingly retiring earlier. That does show up beautifully in this chart which was taken from the Bureau of Labor Statistics chapter and the reference is cited so you can look at it.

It is true that working women earn less than working men and they thus receive a lower dollar benefit on the average than do men. At the same time it is also true that the lower benefits are weighted to favor lower earners as compared with higher earners. On the other hand, since the proposal to decrease the number of dropout years in the computation of benefits has been made by the administration it is one that I would not be in favor of even though I did chair President Reagan's task force on social security prior to his election. The reason is I have always been for giving some years of earnings credit for women who are bearing children and I would tie it to the bearing of the children like Bob Myers who would tie it to the taking care of the children. Only women can bear children and I see no disadvantage in taking advantage of what is unique.

May I point out that the effective tax that a two-worker family pays is far higher than 6.65 percent matched by their employer. In many cases it is 8, 10, or 12 percent of the earned income of that family and it is inflation that is driving women to work as much as anything else. That money means that they forgo present expenditures for children that they are raising and that are beneficial for the welfare of our country to be raised with good nutrition and food and yet they do not upon retirement receive more. I think if you gave married women the choices of whether they should stay in the system after a long number of years maybe they would want to opt out as many of the nonprofit employees that do have that option or have had it and certainly State and local employees do.

I am skipping down on this. Among older women as I already mentioned you have a great disparity in incomes, a great disparity in health. If you talk to physicians about older women you will find that they have divided older people, men and women into the young, old, and the older old. And under 75 years it is true that many people today are most or most people are well enough to do some types of work. I do not say be a bricklayer or work in the construction trades if they are a man or work in the assembly line if they are a woman but there are a lot of solutions of finding jobs for women who are age 62 to 64 and some of them include such things as taking care of young children. I think it is very unfortunate today the fact that we have isolated families in which grandparents very rarely see their grandchildren. In respect to home responsibilities it is true that it is on women's shoulders that much of the care of the sick and disabled has traditionally fallen. However the growth in nursing homes in this country in recent years has been astonishing, from 300,000 beds in 1963 to 1.4 million in 1977 and nearly 2 million today. Expenditures for nursing home care in 1979 was nearly $18 million. In other words most women do not wish to stay at home taking care of older relatives who are very ill. And I can understand that.

Ms. OAKAR. Doctor, now would you not also agree that a part of the problem—and you talked about the health problems that older women have is that in the medicare bill we do not provide for preventive care. Medicare only covers one-third of an older person's needs, and there are very little home health care benefits available to these people so that they can adequately care for their loved one. We have not provided incentives to people under job and family stress that would enable them to care for a sick parent.

That might account for the fact that so many people turn to quality or unfortunately in some cases lack of quality in-home health care. I would not like to see that statement isolated.

Dr. RICARDO-CAMPBELL. I am in full agreement with you and you will be pleased to know that the Reagan administration is in agreement and supports additional moneys to be spent for home health care.

Ms. OAKAR. But, they are against the medicare amendments that we passed last session. I do not want to get into attacking the administration on that issue—but the truth of it is we did pass some 48 or 50 amendments to medicaid and medicare, some of which provided for example the elimination of the 3 days mandatory visit to a hospital in order to qualify for home health care. But it is sensible to eliminate that requirement and actually save money for that fund because hospital costs are by and large more expensive. Now they want to repeal all of those reforms.

Dr. RICARDO-CAMPBELL. I do not want to go into the details of it but the Republican platform states home health care is one of the things that should be strongly stressed. I greatly support it. I do not know who is changing. I have not been in Washington, D.C. in the last few months.

Ms. OAKAR. That is an important part of the Republican platform, and I hope that you tell them how you feel while you are here. We are just delineating the line items now and we need your help.

Dr. RICARDO-CAMPBELL. I would like to sum up and say overall it is very difficult to assess how women as a group would be compared to men if there were a cutback from the current 80 percent of the full benefit of age 62 which slides up of course to 93 percent. The decrease in early retirement benefits I think if you have it—and I do think it is a good idea to have it—should be more penalty on the 62 and 63 year olds because generally speaking since women live to 80-odd years, I think they should get used to the idea of continuing to work longer and most of the women I know do want to work longer. They do not really want to retire. They should have however a 5-year warning period to allow for personal retirement planning. However if this is done—and it was very correctly pointed out, it does not increase revenues for the immediate financial crunch—if you have 5 years and you are reaching 87 soon, and that is the period, 1982 to 1987 of the real financial crunch, it does become important in the long run when the baby boom babies retire. Therefore I think your proposal should be weighed along with all the proposals made for the long run financial conclusion because it is a long run proposal more than a short run. I would investigate the importance of universal coverage to yield short run revenues as well as to correct one of the very major inequities of the system and if you spoke to people throughout the country, as I do, this is the one they are most interested in. Why should I have to pay tax on tax which is really what you are doing under social security and yet Government workers, just because they have a pension system that is indexed to the cost of living, and I have a private pension system to which I pay, and my benefits are not indexed to the cost of living, they do not even pay the tax. And

they are beginning to ask how much are the unfunded liabilities in the civil service retirement benefit fund.

Ms. OAKAR. Let me put my other hat on. I chaired the Subcommittee on Employee Benefits and Compensation for Federal employees and they do pay tax. I do not want to misinterpret what you said. You are saying they do not pay tax on their pension?

Dr. RICARDO-CAMPBELL. A civil servant would pay taxes upon the benefit but as I understand it when you pay——

Ms. OAKAR. Social security you do not pay taxes.

Dr. RICARDO-CAMPBELL. I pay my social security tax. I cannot subtract that when I compute my personal income tax. I have to pay a tax on the tax, income. My gross income is say $1,000. I pay out 7 percent for simplicity and then that 7 percent is not deductible before I can compute my personal income tax.

Ms. OAKAR. I do not think that is accurate.

Dr. RICARDO-CAMPBELL. I will check it but I have heard it from a lot of places.

Ms. OAKAR. Let me just say this also because this question of universal coverage has been raised before, and it makes it look as if we really save a lot of money if these Federal employees came into the system. In many cases many Federal employees including myself have paid into both systems in the past. As a matter of fact, I paid into social security for a number of years when I was teaching. We did not have a pension plan in one of the systems I taught in. Our analysis shows that the inclusion of Federal employees into social security would not save the social security system. In the short term it might generate some funds, but in the long term it might contribute to the deficit of the trust fund. I think we have to examine this possibility and I think we have to take a look at the matter of taxation also. We are having hearings on the subject of universal coverage. As chairman of this task force or in my other capacity, I do not want to go into my own personal viewpoint on this, but I do think it is important when talking about Federal employee benefits, to determine exactly what they are compared to what you get from social security. Also, we must find what is taxed and what is not taxed and whether or not this infusion of funds would indeed "bail out" the social security system. The bottom line is that that would not be the case, but there might be other reasons for wanting them included. But, my belief, based on the analysis we have done, is that it would not provide a real windfall in the coming years for the social security system. It might indeed contribute to the deficit.

Dr. RICARDO-CAMPBELL. Might I respectfully suggest you look at my testimony before this Social Security Committee of the House Ways and Means Committee of February 18 and it points out women as a group, because they are low paid—if they were covered as Federal employees—if they were covered they would benefit.

Ms. OAKAR. I do have your testimony. I have read it.

Dr. RICARDO-CAMPBELL. Thank you very much.

[The prepared statement of Ms. Ricardo-Campbell follows:]

PREPARED STATEMENT OF DR. RITA RICARDO-CAMPBELL

Ms. CAMPBELL. Because I had only one day to prepare this testimony and because others who preceded me have spoken to the broad issues of social security's impact

on women, I, too, will place my prepared remarks on "the early retirement of women" within the broader, socioeconomic picture.

In my dissent to the Report of the Quadrennial Advisory Council on Social Security, 1974-75, I then stated it is no longer possible to tinker with the system. Rather, because of the changing demographics primarily associated with women, tax revenues will eventually not keep up with the benefits. In the long run, the post-World War II baby boom retirees will receive social security benefits, paid out of taxes on the earnings of the relatively low number of workers who were born during the 1960s and 1970s. Although the birthrate has risen somewhat, I do not foresee how this can change the picture in year 2010 and for many years following.

Basically, the social security system imposes taxes on individuals but pays out benefits on a family basis. It is this inconsistency that creates the inequities perceived by many women.

I wish to make clear that "trust funds" are not magic words. The Old Age Survivors Insurance trust fund is not a trust fund in the usual sense of the term. There are no accumulated monies to pay out the benefits. Robert Ball's point that to-date the social security system "has not missed paying a check" is true, and will be true in the future. The Reagan administration is committed to assuring that benefits will be paid.

In the past, the expansion in benefit levels has been supported in part by the gradual expansion of coverage. For example, farmers, physicians, domestic household workers, and others were added gradually. Today, the only large group that is not covered by social security are government workers—federal, state, and local. Thus, a quick gain in current revenues can be obtained by this route only by extending coverage to government workers, the only group not paying social security taxes. However, their inclusion may not be politically viable. Additionally, the past increases in the levels of benefits has been supported in part by the extraordinary explosion in the numbers of married women who are in the workforce, pay the tax, and upon retirement or widowhood may collect either a benefit based on their spouses covered employment or on their own, but not both. In March 1981, 69 percent of women 20-24 years and 65 percent of women 25-64 years are working. The rate of increase in the number of working women will slow down during the 1980s.

My initial proposal "to make it immediately actuarially disadvantageous to retire at ages 62 and 63" was only one of several proposals to make available (without increasing taxes) enough monies to pay out benefits, 1982 through 1987. Others include universal coverage, indexing of existing benefits by the cost-of-living or the wage index (whichever is the lower), and elimination of benefits to survivors aged 18-22 years who go to college.

This Subcommittee is hearing testimony on whether the Administration's proposal to discourage early retirement would affect women as a group differently than it would affect men. About 65 percent of the new beneficiaries for retirement benefits are less than 65 years old. While 37 percent of women 62-64 years worked in 1978, 65 percent of men in this age group did. A smaller percentage of women work than do men at all ages, and more women than men work part-time. However, "between 1948 and 1970, the increase in the proportion of women aged 55-64 in the labor force exceeded the rise for all females" while the percentage of older women working has hovered around 42 percent from 1970 through 1979. As men increasingly have retired early, women of all ages have—and are expected to continue to—offset this decline by entering the labor force. As Chart 1 indicates, about 80 percent of men and over 50 percent of women are in the labor force. In 1950, the percentage were about 83 and 36, respectively. In 1981, 65 percent of all women aged 25-54 years are in the labor force.

To my knowledge, there are no data available about the retirement decisions of women although there are data available about the retirement decisions of men. For many years it was claimed that individuals retire before age 65 primarily because of ill health, and this belief has been the major reason for having a reduced benefit before age 65. Recently available data show conclusively that more than 80 percent of men 62 to 64 years old are healthy enough to work. Among white males who were 60-64 years of age in 1971, 8 percent, and among black males, 13 percent, stated that health had "prevented" them from working in 1969. Fifteen percent of these white and 20 percent of these black males stated that they had a health problem in 1971 that "limited" the kinds or amounts of work that they did. Health does not explain why men retire early. Financial arrangements appear to be numerically more important than health in men's early retirement decisions and are also likely to be so in women's.

The life expectancy of older women is considerably greater than that of older men. Men at age 60 have an average life expectancy of 24.6 more years, or can

expect to live until they are 74.6 years of age. Women at age 50 can expect to live until 80.5 years, or about six years longer than men. Men at age 60 can expect to live on the average until 77 while women at age 60 can expect to live until 82, or five years longer. Men at age 65 can expect to live until age 79 while women at age 65 can expect to live until 83.4. If women at older ages on the average live four, five, or six years longer than men at the same ages, can it be assumed that they are somewhat healthier than men?

Forty-seven percent of women who were 60 or 61 years and 37 percent 62 to 65 years worked in 1978. Conversely, 63 percent of women 62 to 65 years did not work in 1978. Less than 50 percent of women would thus be affected directly by a change in entitlement rules to an early benefit while data indicate that 65 percent of men 62–65 years worked and clearly would be directly affected.

The age group that has seen the greatest increase in the precentage of women working is the older age group. Generally, men die at earlier ages than women. With smaller families and an increasing number of divorces, older women are more likely to be in the labor force for personal reasons than in the past. Ironically, the 1977 social security amendment that sought to help divorced women by permitting entitlement to spouses benefits after ten years of marriage may be inducing (as does the marriage penalty in the income tax law) more divorces, increased administrative costs, and has begun to explode the total of spouses' benefits because two or three widows at age 60 or over may collect a benefit based on a single primary. Divorced spouses benefits do not come under the maximum cap on family benefits.

Those women whose children are grown have, for the first time in many years, more time for themselves. Those who live alone may find life more meaningful and themselves less lonely if they are working. They also enjoy a higher income. The number of older women who prefer not to live with relatives has been increasing. The economy is creating a larger proportion of jobs in the service industries, many of which have traditionally been held by women.

Recent data about the married population under social security support the popular belief that on the average older men increasingly marry younger women. For example, among one-half of new marriages where the groom is aged 55 to 59 years, their brides are younger by 10 years or more. Among the estimated 13,000 plus new marriages for men 60–64 years, 58 percent in 1980 were to wives 10 years or more younger and nearly 40 percent to wives 15 years or more younger than the groom. Many of these younger women are likely to be working. To receive a secondary benefit, a wife must be at least 62 years of age. A widow and widower may receive a survivor's benefit at age 60. Because no one is entitled to more than one benefit "earned or dependent," many retired women receive one-half of their husband's primary because it is the larger sum. Widows who receive 100 percent of their husband's primary would continue to be the only group that receives a benefit as early as age 60 (leaving aside the permanently disabled).

If a man retires at age 62 and his wife is age 55, or if he retires at 65 and his wife is 58, it is not uncommon for that wife to take a job even if she has never been previously in the labor force. Many women who are very happy to prepare breakfast and dinner dislike cooking a substantial lunch. Yet, many men who retire have been used to eating more than the pick-up, light lunch that many wives have been satisfied with over the years at home. Other women who previously have been at home become unhappy with the loss of freedom to organize their day, whether it involves shopping, household chores, tennis or bridge, or volunteer (unpaid) work at the school, church, or hospital.

Among older women who have been working most of their lives, there is evidence that they have a greater preference for early retirement than do men. This is probably because they can earn on the average less than men and also because their time at home may have greater value to them and their families. In economic terms, women's reservation prices are commonly higher than the market wages available to them.

In 1977, 74 percent of all women with retirement benefits had reduced benefits because of early entitlement as compared with 62 percent of men. This is not a very great differential when one considers that the group of women retiring in 1977 were not brought up to consider paid employment as a normal part of a woman's life. Unfortunately, there is no precise data that separates out the importance of financial status, health, home responsibilities, and other factors involved in retirement decisions by women.

It is true that working women earn less than working men and thus they receive a lower dollar benefit on the average than do men. At the same time, benefit amounts are weighted to favor lower earners as compared with higher earners. But, on the average, women's primary benefits are lower than men's and they are also less likely than men to receive a benefit for their spouses. Thus, although women as

a group would have a smaller dollar cut in benefits, their personal evaluations of the effect of that cut are likely to be more keenly felt. Economic theory supports that the lower one's total income, the higher the utilities or personal evaluations of changes at the margin.

The proposal to count earnings of individuals ages 62-65 years in computing their primary benefit, although defensible, works against those women who bear children and also who retire prior to age 65. The 1980 Amendments of the permanent disability portion of social security provided for persons who are 3 years or under who become permanently disabled to use, in the computation of their benefits, up to three additional "childcare drop-out years" for infants under three years of age in their care. In the past, I have similarly proposed that the computation of a social security benefit should permit up to two or three years of earnings credits for each of the first two children born. For working women who bear children and leave the labor force for one or two years, earnings credits are a viable means to help maintain their social security benefits at a reasonable level.

Older non-married women and non-married men have low incomes as compared with married couples. In 1976, ages 62-64, the median income of working married couples was $14,900; working non-married men, $8,180; and working non-married women, $6,550. The differences among non-workers were, respectively: $7,260, $3,260, and $2,820. Obviously, some persons who would be affected by a reduction in the early retirement benefit will become eligible to draw general revenues supported, Supplemental Security Income (SSI) benefits when previously they might have been unable to do so. There are extremes of income among older women from the very poor to the very wealthy; however, their median income is lower than that of men.

With respect to health, data indicate that women are probably healthier than men because on the average they live longer. Women may have a higher number of physician visits but this is not proof of a greater amount of illness. Women may take better care of themselves than do men.

In respect to home responsibilities, it is true that it is on women's shoulders that much of the care of the sick and disabled has traditionally fallen. However, the growth of nursing homes in this country in recent years has been astonishing: from 300,000 beds in 1963 to 1.4 million in 1977. Expenditures for nursing home care in 1979 was nearly $18 billion. Only 5 percent of the aged are in nursing homes. Partial home care of the many aged over 80 or 85 years is being provided by unpaid relatives, usually women, as well as by paid workers.

Overall, it is difficult to assess how women as a group would be affected as compared with men if there were a cutback from the current 80 percent of the full benefit at age 62, from the current 86.7 percent at age 63, and from the current 93.3 percent at age 64. Women would be affected differently than men because of the differences between the work histories of men and women. However, because of the complexities of the benefit computation, I have no time to explain this in detail here.

Individuals who pay social security taxes are, in a very real sense, paying a tax on a tax. Social security taxes are not deducted from gross income and are in the income base on which personal income taxes are computed. However, federal employees who pay 7 percent to the Civil Service Retirement System deduct that percentage from their gross income for personal income tax purposes. This explains why social security benefits are not taxable income, and I would like to stress this since some individuals have testifed that the social security benefits should be taxed.

The question has also been raised whether older women are covered by pensions or annuities. Because more women are working today, more women, as the years pass, will have private or public pension coverage. Forty-eight percent of working women 45-54 years; over 40 percent, 55-64 years; and 16 percent, 65 years and older have pension coverage. However, in 1978, only 31 percent of all women in the private labor force were covered while most who were in public employment are covered. For example, most public school teachers and public librarians have pension coverage. Fifty percent of males have pension coverage. More women work part-time and have more breaks in seniority. In 1976, 40 percent of white women and 63 percent of white men 65 years and over had some income from assets: interest, dividends, rents, royalties, and from other sources. Only 12 percent of black women and 16 percent of black men fared as well. Many of the aged own their own homes.

Any decrease in early retirement benefits should have a five-year phase-out to allow for personal retirement planning. However, if this is done, it is clear that the proposal does not substantially increase revenues for the immediate financial crunch. The proposal becomes important for the long run when the anticipated

number of workers who pay taxes to support the benefits of the baby boom beneficiaries falls. If this is true, then this proposal should be weighed along with all other proposals for the long run.

In conclusion, may I once again stress the importance of universal coverage to yield short-run revenues as well as to correct one of the major inequities of the system. Moreover, this would help female federal employees as a group because they are mostly in lower paying jobs. Without an increase in revenue, taxes or borrowing will have to increase or the benefits be restructured in order to meet the payments in the 1980s.

It is also possible to transfer monies among the various trust funds as a last resort. However, that will not solve the basic problems. This last-resort solution—to transfer monies among the "trust funds"—makes such assumptions that the rapid rise in hospital costs will be contained. No policies currently in effect do this.

Ms. OAKAR. Our next witness is Dr. Burkhauser.

STATEMENT OF DR. RICHARD V. BURKHAUSER

Mr. BURKHAUSER. Thank you. I have submitted a paper which you are welcome to look at. I just have a couple of minutes of talk I will give now When you look at the Social Security and problems of the system I think it is important to understand—before we talk about change it is important to understand how we got to where we are. That is, how did the social security program become the largest single Government expenditure next to defense, with virtually no political criticism, and why is it now the center of controversy?

The answer is that throughout the history of the system, benefits received by retirees have been far greater than those that could have been financed by their own and their employers' prior contributions alone. The contributions of large, younger wage-earning age groups were sufficient to compensate for additional benefits granted to retirees on the basis of welfare considerations—for example, to compensate for lower lifetime income, dependent children, a noncontributing spouse and price rises since retirement. Even workers with covered earnings throughout their lives received a higher rate of return on their contributions into the system then would have been the case in a fully funded, wage-related pension system.

The fact that everyone gained from the system facilitated the perpetuation of the myth that social security was a system based on insurance principles. The reality is that without continuing increases in social security tax rates, the cross-generation transfers inherent in the pay-as-you-go program will no longer be sufficient to provide all contributors within an age group with a promise of a pension at least equivalent to that which they would receive under a fully funded, wage-related system. This problem becomes more acute as either real productivity or population growth slows.

These two features of today's economy put an even greater burden on the current working population to fulfill the promises made to the current retired population and make them uneasy about the willingness of future generations to support the system when they reach old age. Under these conditions, any additional provisions of benefit protection made to one particular segment in an age group above the level that would be generated from past contributions can be achieved only if other members of that group receive less protection.

The political reality of this situation is that social security will never again enjoy the degree of support it had in the past. Now a decision to increase benefits to some will mean real losses to others. As a result, social security will be perceived increasingly—and correctly—as an income-distribution system as well as an insurance system. As such we should openly use the tools of economic analysis to see if the present system is the most efficient and equitable for today's society.

This is not to say that social security will change because an aroused public has finally become aware of an ineffective program. On the contrary, social security was the most significant and successful program of its time. Rather, it will change because the

system, as it now stands, continues to apply a cure developed for past social ills to a country suffering from different ailments.

When social security was first established, it was the only major Federal program which met the income needs of the low-income aged. Its across-the-board system of redistributing income was a politically popular method of fulfilling both insurance and welfare goals. Younger generations now perceive that this approach to income distribution is possible only at the expense of significant tax increases. In addition, other programs now exist to meet social-welfare goals. Supplemental security income (SSI), a negative income tax system established in 1974, is a real alternative for redistributing income to the low-income aged, and it does so through general revenues. SSI makes this type of redistribution redundant within social security.

In an era when divorce was rare and few married women had market careers—in only 3 of 20 households where both the husband and wife working at the same time—the social security system with reasonable logic virtually ignored the taxes paid by working women and made benefits to a housewife wholly dependent on her husband's earnings. Today, divorce is very prevalent and a lifetime commitment to the labor force is the norm for women (in over one-half of all marriages, both partners work during the year). Yet social security continues to ignore these changes in family structure. As currently constituted it gives little reward for taxes paid by working wives and no benefits to homemakers divorced after fewer than 10 years of marriage.

But even more important, social security was developed in a period of mass unemployment, and a major justification for its creation was to encourage older workers to leave the labor force. There is little doubt that the earnings test, together with a payment system that penalizes those who postpone acceptance of benefits, has drastically altered the life-cycle behavior of workers. In 1948, about one-half of men aged 65 and over were in the work force. Today, less than one in five work. In 1961, the year men age 62 to 64 first became eligible to receive reduced social security benefits, four out of five were in the labor force; today only about half continue to work.

Under current social security rules, $1 in benefits is lost for every $2 a worker earns. Since taxes must be paid on wages but not on benefits, this has meant that most retired workers aged 65 and over take home only about 30 cents of every dollar earned. I thought it interesting that Commissioner Myers said he wanted to get people to again think of age 65 as the age of normal retirement. But merely saying age 65 is the norm will not suddenly change workers attitudes. It seems to me any older worker who is going to lose 70 cents out of every dollar he earns will not work at age 65 no matter how much Commissioner Myers suggests he continue. If you want to get older workers to work more you have to tax them less.

Most economists have long argued against this method of reducing work at old age. But as we approach the beginning of the next century, the costs associated with this lost manpower will greatly increase. The fall in the birth rates make it clear that programs which drive workers away from productive work must be changed. The passage of the 1978 amendment to the Age Discrimination in

Employment Act, which raised from 65 to 70 the minimum mandatory retirement age, which Mr. Pepper was most influential in having changed, is a first political response to this cost. The end to the earnings test, a fair increase of benefits to those who postpone retirement, a move to earnings sharing, the taxing of social security benefits, or even a postponement to 68 of eligibility for such benefits, may all be argued on income-distribution grounds, but some or all must occur, because each would reduce the tremendous negative effect of our current social security system on work.

The Reagan administration has opted for ending the earnings test and increasing the incentives for postponing social security acceptance until age 65. A proposal by Representative J. J. Pickle, (D-Tex), chairman of the House Subcommittee on Social Security, opts for ending the earnings test at age 65, as well as postponing full benefit eligibility to age 68. I can think of no area where supply-side economics is more likely to elicit a positive response than here. No workers face higher marginal tax rates than those who are subject to the earnings test, and over the next two decades I fully expect that workers aged 62 and over will respond to the removal of these excessive taxes on work with significantly higher labor force participation rates. This will result in both higher productivity and higher total Federal tax revenues.

Nevertheless, some hardships will result from the reduction in benefits to those who must leave the work force before age 65. This is why a phase-in period for any of these proposals is necessary. While the great majority of people have the option of continuing to work, there will be a significant minority of workers who either can no longer find a job or who are unable to work, due to illness. Many of those in ill health will not be eligible for disability benefits. This will certainly be the case if the stricter Reagan proposals for disability are adopted. Rather than continuing to encourage the majority of workers this age to leave the labor force through a social security system that penalizes work, I would hope that the administration would protect these vulnerable older workers by lowering the age of eligibility for supplemental security income to 62. This would allow part of the welfare goal of social security to be taken up by the more efficient SSI system, and guarantee a safety net for those who cannot work. Because most of the increase in tax revenues that will come from increased work by older workers will be captured by the Federal income tax, this can be used to offset the additional SSI costs.

Ms. OAKAR. Would you repeat that statement? I want to make sure I understand that statement.

Dr. BURKHAUSER. Because most of the increase in tax revenue that will come from increased work by older workers will be captured by Federal income tax, it seems reasonable we should use SSI to offset the additional costs. What I mean by that is, if you believe in supply-side economics—and presumably that is what is behind all this—that you are lowering the tax rates on older workers, they are going to work more. That means they pay more in the social security system and they pay more in terms of Federal income tax. That increases total revenues. That is the supply-side story.

Ms. OAKAR. Because social security is not taxable now.

Dr. BURKHAUSER. That is one reason why social security is an inducement for not working since people who do work pay Federal income tax.

Ms. OAKAR. I was one of the major sponsors of the bill that you mentioned. The act ends mandatory retirement at 65 and raises it to 70 for Federal employees. We had tremendous testimony. It is true many older people do want to work and they are better off working. In addition, we do not feel that it is mandatory that everybody must work after 65. It is also true that many people are not able to work. Finally, many elderly people would be better off taking that social security check, which as of now for a woman over 65 is $269 a month, instead of taking a low-paying job. All your supply-side economics notwithstanding, I have not heard really comprehensive testimony thus far indicating to me where all these jobs are. That is the problem that I have. The theory is interesting, but no data has been furnished to me indicating of where these jobs are. I have heard that women do want to work a little longer with a minimum benefit. They can maybe work for the minimum wage. But, you tell me how in my city of Cleveland somebody elderly is going to be able to pay that utility bill during the winter on that minimum wage that they are working for. I think it is interesting but it does not quite deal with the dimension of the problem.

Dr. BURKHAUSER. At a later time I hope to talk to Mr. Pepper and some other members of the Aging Committee. I was part of the study that the Congress asked the Department of Labor to prepare on the effects of changing mandatory retirement rules. That study is about to be reported by DOL. One of the major findings is that while forbidding mandatory retirement from age 65 to 70 gives older workers the right to work. Most private pensions and certainly social security penalize anyone who stays on the job

Ms. OAKAR. In one area. We still do not have the large corporations agreeing. They have mandatory retirement. That is why you have Walter Cronkite retiring because he is 65 and he cannot work.

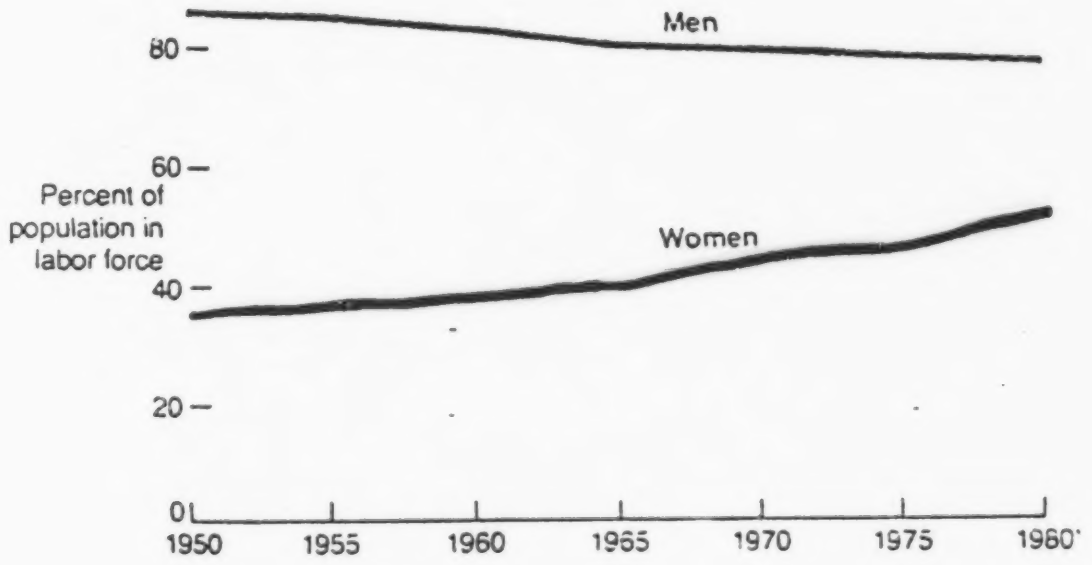
Dr. BURKHAUSER. For very high income executives that is right but just for the ordinary person the economic effects of ending mandatory retirement before age 70 are going to be very small because most pension plans penalize people who continue to work longer as does the social security system. If the social security system is not actuarially fair in terms of increasing benefits to people who postpone retirement, in effect workers lose pension benefits.

Ms. OAKAR. I am not arguing. I agree with that. All I am saying is when you propose to have people work longer, raising the retirement age to 68, the median lifespan for men. For women it is about 7 or 8 years higher. What are you going to do, ask them to work all their lives and then not receive a benefit?

Dr. RICARDO-CAMPBELL. You do not pay taxes until you are age 19 or age 20 whenever you start working so life expectancy is now 70-odd years for men as well as women.

Ms. OAKAR. That is if they reach a certain age. I know you quoted that statistic but if you reach age 50 you have a good chance of living beyond age 68 but the median life expectancy for

Chart 1.
Labor force participation rates of women and men, annual averages, 1950-80



*January-June 1980

U.S. Department of Labor, Bureau of Labor Statistics, Perspectives on Working Women: A Databook, Bulletin 2080 (October 1980), p. 2.

men nonetheless, whether you factor in all those other issues or not, happens to be 68 years old at this time. We hope it is longer.

Dr. BURKHAUSER. I think you are right, we do not know yet what the effect of supply-side economics will be. My judgment is that if it is going to work anywhere this is the area it should work because the penalties on work are so high. But I agree, we do not know what is going to happen. Let me close by saying that I have mentioned what the administration and what some Members of Congress have proposed. My problems are not with what they have proposed but more with what they have not proposed. Thus far no proposals have addressed the inability of the current social security system to adjust to the changing roles of women and men. As part of any change in the system I hope Congress will seriously consider a move toward earnings sharing. In the paper which follows, "Earnings Sharing: Incremental and Fundamental Reform," I show that by moving to a community property, equal sharing of family income principle for OASI, women will no longer be put in a position of dependency. In addition, market work by women will no longer be penalized; but will produce real increases in total family OASI benefits. I estimate that ending the spouse benefit and replacing it with earning sharing can be achieved with little or no increase in program costs. Table 1 shows the results of ending the spouse benefit and replacing it with earnings sharing for workers who reach age 65 in 1984. As can be seen from the table, the tilted nature of the PIA benefit mechanism cushions the reduction in benefits for a one-earner family which no longer is eligible for a spouse benefit. In addition, if the spouse in such a family has even a modest work history, only a small loss or even a gain will result. Most two-earner couples will be equally well off or gain slightly. Most important, however, the spouse under earnings sharing will have a direct right to benefits and a closer link will exist between marginal payments into the system and future benefits received. Such a system is superior to our present dependent spouse system, since it both rewards work and ends an ineffective redistributive feature of OASI—the spouse benefit.

The political power of the elderly will and should be a factor in deciding whether the carrot or the stick approach is used to increase work at older ages. But some combination of the proposed pro-work amendments will emerge. The social security myth cannot be sustained, because its increasing cost to society makes change inevitable. It is this economic reality that in the final analysis will overcome even the most hostile defenders of the status quo.

[The prepared statement of Dr. Burkhauser follows:]

PREPARED STATEMENT OF RICHARD V. BURKHAUSER, DEPARTMENT OF ECONOMICS AND INSTITUTE FOR PUBLIC POLICY, VANDERBILT UNIVERSITY ON EARNINGS SHARING: INCREMENTAL AND FUNDAMENTAL REFORM [1]

ABSTRACT

The adoption of earnings sharing would require the Social Security System to fundamentally change its perception of the family and the roles of women and men

[1] This paper will appear in "A Challenge to Social Security—The Changing Roles of Women and Men in American Society," Richard Burkhauser and Karen Holden, eds., copyright The Regents of the University of Wisconsin, New York: Academic Press (in press).

within it. It would provide women with a direct property right to one-half the earnings stream of the family and no longer consider homemaking a dependency role. However, earnings sharing, in recognizing women and men as equal partners in the maintenance and support of the family, would put added responsibility on both to switch successfully between home and market work. The impact of such a change on income distribution would, in comparison, be minor. Although the majority of one-earner families would lose benefits, such benefit losses would be significantly offset by the tilted nature of the Primary Insurance Amount calculation. The change in total social security expenditures would also be small.

Old Age and Survivors Insurance (OASI), almost from its inception, has attempted to satisfy the requirements of both social adequacy and social insurance. It was originally conceived as a means of providing a safe financial instrument for those retiring from the labor force, but the 1939 Amendments to the Social Security Act expanded this goal to one of providing additional income to aged workers independent of their earnings record and their spouses.

Included in the 1939 amendments was a spouse benefit. In an era when few women worked in the labor market, the spouse benefit was conceived as a means of providing the family of a married worker with an additional benefit over and above that provided to a single worker with the same earnings record.[1] But significantly the right of a nonworking wife to a benefit was not direct; it was based on her husband's earnings record, and so was its value.

In the past few years several government commissions, including the 1979 Advisory Council on Social Security, have argued that this system of providing benefits to women should be changed. Of the many principles on which reform of the system could be based, the most discussed has been earnings sharing. It was not officially recommended by the 1979 Advisory Council, but the members of that Council concluded that some form of earnings sharing was the most reasonable of all possible reform alternatives (DHEW, 1979).

This paper explores the potential impact of establishing earnings sharings as the base for distributing OASI benefits. Two major aspects are seen as important: (1) the impact of this change in the assignment of within-household property rights on the dependency of women within the

family; (2) its impact on the dual nature of the system--serving both social insurance and social adequacy--across the families of different types of women.

In the first instance, it is argued that the present system of assigning benefits on the basis of individual earnings streams is not preferable to a system based on equal sharing of the household earnings stream by a married couple. In the second case, it is argued that the redistributive effectiveness of the current spouse benefit can be seriously questioned on grounds of both equity and efficiency. From a pragmatic policy perspective, furthermore, it is demonstrated that even the strictest adherence to an earnings sharing principle, one which included a complete end to the spouse benefit, would neither seriously decrease benefits to the great majority of traditional one-earner families, nor increase benefits to the great majority of two-earner families. The principal losers of such a change would be relatively high-income, one-earner families who over time are most capable of adjusting to this change and who, on income adequacy grounds, have the weakest case for its continuance.

I. SPOUSE BENEFIT vs. EARNINGS SHARING

Within-Household Property Rights

Between our current system of providing protection for women and an earnings sharing system, there is a fundamental difference in the method used to assign benefit rights within a household. OASI now follows the English common law procedure of assigning rights to an earnings stream to each individual earner. Earnings sharing, in contrast, uses the household as the relevant unit and assigns an equal share of total household earnings to each spouse. In so doing it follows the Roman law tradition,

which is used in community property states to determine ownership of most family-generated assets. An OASI system based on earnings sharing would continue to make the family the unit of protection, but would differ from our present system, which provides rights to a spouse only as a derivative of the earnings of the primary earner, by giving each partner a direct right to benefits.

The changing nature of marriage has strained the ability of OASI to protect homemakers. Because a homemaker has no direct right to OASI benefits, she may lose her claim to a spouse benefit in the event of divorce--a problem of major consideration today. The present system now guarantees such a homemaker a spouse benefit after 10 years of marriage, but because she has no direct right to her husband's earning stream, the worker benefit going to her ex-husband will be twice the spouse benefit she receives.[2] While consistent with the common law, this method of within-household distribution of property rights, which views homemakers as dependent on their spouses, is seriously questioned by those who view marriage as an equal partnership.

In a pure insurance system, changes in the method of assigning within-household property rights would have no effect on the distribution of benefits across households. A pure insurance system, like any private insurance system, would be actuarially fair, relating contributions to the expected value of benefits. For instance, fire insurance purchased by a family is equal to the value of their insured property multiplied by the risk of a fire. If their house burns down, the payment is the same to the household regardless of whether the husband, the wife, or both, jointly own the house.

If earnings sharing were introduced in an actuarially fair, OASI system, a one-earner family in which the husband earned $15,000 per year

would continue to receive benefits derived from taxes on those earnings. The difference would be that two checks would be sent, one to the husband based on his $7,500 per year earnings record and one to the wife based on her $7,500 per year earnings record. In a two-earner family where the husband made $10,000 per year and the wife $5,000, each would be credited with a $7,500 earnings record. Such a system avoids the need for a spouse benefit since both spouses are entitled directly to one-half the earnings of the household.

The merits of applying the earnings sharing principle to an actuarially fair social insurance system are relatively clear-cut. It would avoid placing homemakers in a dependency role, would provide them with direct protection, and would be portable in the case of divorce.

Equity and Efficiency Among Women

Unlike Supplemental Security Income (SSI), which provides benefits based solely on need, contributions made into the OASI system at younger ages are linked to benefits received at older ages. Recognition of this link provides a mechanism for judging the appropriateness of benefits. Those benefits which are the result of previous contributions are justified on social insurance grounds. Pure transfers must be justified on social adequacy grounds. Within this framework, we can measure the impact of spouse benefits on the insurance-adequacy mix across families and the reasonableness of the distributional impact that would result from earnings sharing.

In a world filled with single people and one-earner families in which divorce is unknown, a spouse benefit based on the earnings of the male simply redistributes income from single people to married people, since single people effectively pay for uncollectable spouse benefits.[3] Since

its inception in 1939, this dependent-spouse model of the family has become less and less realistic. In 1940, only one woman in four actively participated in the labor market and in only three out of 20 households were both the husband and wife in the labor force at the same time. By 1980, over one-half of all women were actively in the work force, and in over one-half of all households in the country, both the wife and husband performed market work in the same year. This movement of women, particularly married women, into the labor force is an important aspect of the changing roles of women and men in marriage. One consequence has been a significant change in the redistribution impact of the spouse benefit.

Since the system is based on individual earnings records, contributions by the wife into the OASI system go toward creating her own separate earnings record, rather than toward a joint family record. The net result is that second earners, in effect, purchase redundant insurance. For instance, a wife eligible for an $1,800 spouse benefit based on her husband's earnings record receives no additional benefits from her contributions until her separate earnings record produces a benefit in excess of $1,800.

Burkhauser (1979) shows that the dependent-spouse family model used in OASI has put both single people and two-earner families at a disadvantage relative to traditional one-earner families. Using data from the 1973 Social Security Exact Match File, he finds that at each OASI benefit level, single people contributed more into the system, per dollar received, than their married counterparts, and two-earner families contributed more than their one-earner counterparts.

Over the entire population, however, the across-generational transfers were sufficient to make all families better off than they would have been

in an actuarially fair system. That is, up to 1973 taxes paid by younger generations were sufficient to more than compensate current OASI recipients for the taxes they paid into the system over their work lives. Although one-earner families did better than both two-earner families and single workers, all received more than would have been the case in a pure insurance system. Only when the marginal contribution of second earners is examined do OASI contributions yield less than an actuarially fair return. That is, the net increase in total household benefits gained as a result of the second earner's contributions into the system is less than would have been received from a fair annuity, because for the most part these contributions purchase insurance that would be available through the spouse benefit of the first earner. Thus the current spouse benefit system affects women--and the families of different types of women--differently. In effect, it reduces the marginal return from contributions made into OASI at younger ages by both single women and most married women.[4]

On equity grounds, it can be argued that holding total family income constant, families with two earners should pay the same amount of OASI contributions as one-earner families. On efficiency grounds, it can be argued that a negative marginal return on OASI contributions will negatively affect the work effort of married women. Replacing the spouse benefit with an earnings sharing principle would comply with both these criteria. Adopting this principle would strengthen the social insurance aspect of OASI by more closely relating benefits to contributions.

Impact of Earnings Sharings Across Families

In addition to the spouse benefit two other income adequacy provisions, a minimum benefit and a decreasing marginal benefit factor, were included in the 1939 amendments that established the framework for the OASI system.

The distributional impact of replacing the current dependent-spouse model of the family with the equal-partner model of earnings sharing is significantly affected by these two characteristics of OASI.

OASI benefits are derived by first calculating a worker's average monthly wage (AMW), based on yearly earnings up to a taxable maximum on which workers and employers paid OASI taxes. For a worker aged 65 in 1973, the calculation was based on his highest 18 earnings years. Then, on the basis of some multiple of AMW, a worker's Primary Insurance Amount (PIA) is calculated. On income adequacy grounds, this PIA coefficient (r) decreases as AMW increases. Table 1 shows the relationship between AMW and PIA in 1973. Note that a minimum PIA of $84.50 per month was given to any worker eligible for benefits but with an AMW less than $78. For single workers accepting benefits at age 65 in 1973, actual monthly benefits equaled the PIA. For married couples in which both husband and wife were aged 65 in 1973, monthly benefits equaled the larger of two amounts: 150 percent of the higher earner's PIA or the sum of each spouse's PIA.

It is important to recognize the relationship between an additional dollar of AMW and its impact on total family benefits. For any worker, single or married, the marginal benefit of increases in AMW are zero up to the minimum benefit. Thereafter, for single workers and two-earner couples marginal increases in AMW yield benefits equal to the marginal PIA coefficient (r). For one-earner couples the benefit yield is 150 percent of (r).

We can best comprehend this relationship and its effect on the distributional consequences of substituting earnings sharing for spouse benefits by first looking at the impact of substituting earnings sharing for spouse benefits in a much simpler system, one with no minimum benefit

and (r) = 1. In such a case, the change to earnings sharing would have no impact on single people or two-earner families regardless of AMW level. For instance, a two-earner family where the husband had an AMW of $200 and the wife had an AMW of $100 would have total benefits of $300. Under earnings sharing, total AMW would be $300 and each member of the family would receive $150 in benefits. Thus within-family benefits would change, but total benefits would remain the same.

This is not the case for one-earner families. Shifting to earnings sharing means that such families could no longer multiply their (r) by 150 percent, and total benefits would fall by one-third at every AMW level--that is, at a constant rate of $.50 per dollar of AMW (Figure 1). In a one-earner family where the spouse had no work record and the husband's AMW was $200, total benefits would fall from $300 to $200, since each spouse receives $100 in benefits from sharing the family AMW equally, but the spouse benefit disappears. As long as (r) is constant across AMW, alternative (r) values will alter the slope between AMW and the difference in total benefits, but not the one-third loss in total benefits.

Given rules similar to the current OASI system, which contains both a minimum benefit and a variable PIA coefficient, the distributional impact of earnings sharing is not so clear cut. Not only would the slope vary across AMW levels, but it would in fact be positive at some points. Figure 2 plots the change in total OASI benefits of one-earner families that would occur across all AMW levels if the family AMW were shared equally and the spouse benefit removed. The slope of the curve is a result of the change in total benefits caused by removing a dollar of AMW recorded in a husband's name and assigning it to his wife's AMW. The net impact of ending the spouse benefit system and sharing total family AMW is the sum of the husband's marginal loss of 150 percent of the relevant

Table 1. Old Age and Survivors Benefit Calculations, 1973 and 1979

Year	Average Monthly Wage	r	1•5r	Primary Insurance Amount	PIA plus Spouse Benefit
1973	$0 -$78	a	b	$84.50	$126.75
	78 - 110	1.08	1.62	85 - 119	127 - 179
	110 - 400	.39	.59	119 - 233	179 - 350
	400 - 550	.37	.56	233 - 288	350 - 432
	550 - 650	.43	.65	288 - 331	432 - 497
1979[c]	$0 -$134	a	b	$121	$181.50
	134 - 180	.9	1.35	121 - 162	182 - 243
	180 - 1085	.32	.48	162 - 452	243 - 678
	1085 and over	.15	.23	452 and over	678 and over

Source: DHEW, 1974 and DHEW, 1978.

Notes: [a]Minimum benefit for a single person.

[b]Minimum benefit for a married couple.

[c]After 1979 AMW break points will automatically adjust with inflation but minimum benefit will remain constant.

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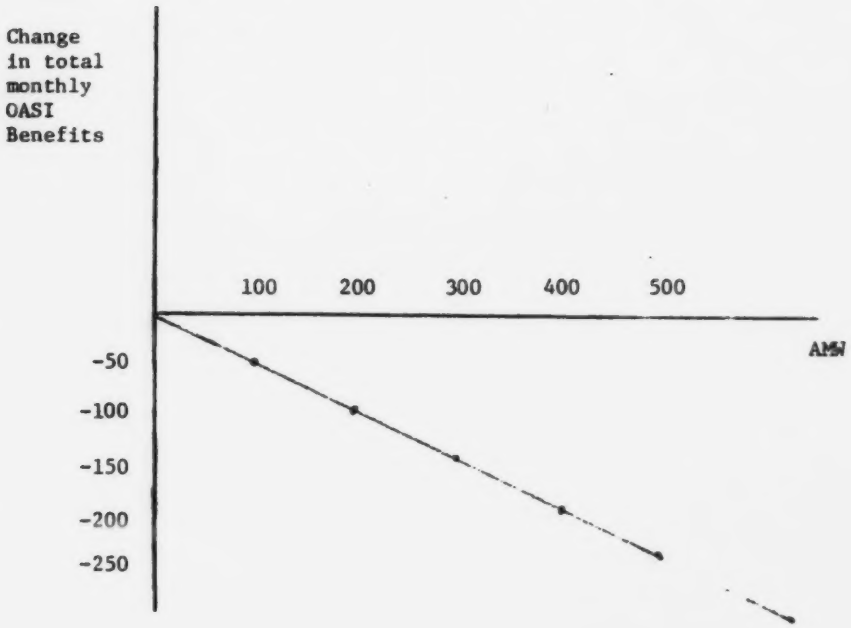

Figure 1

Change in Total Family Benefits For One-Earner Families in a System with No Minimum Benefit and PIA Coefficient Equal to 1

(r) (see Table 1), and the wife's gain in AMW based on her higher (r). A positive slope is possible, since (r) falls almost continually as AMW increases. Thus over some range the negative impact of losing a dollar of AMW even when multiplied by 150 percent is offset since the new shared AMW is multiplied by a higher (r) at the lower mean AMW level.

Not only can the slope be positive in Figure 2, but one-earner families currently receiving a minimum benefit might actually experience a gain in net total benefits: they would now be eligible for two minimum benefits, which exceed the 150 percent of a single minimum benefit they now receive. In addition, because no one-earner family can fall below a benefit level that is twice the minimum, those families with an AMW below $104 gain from earnings sharing. From that point until $156.50 (twice the minimum benefit) one-earner families lose at the rate of 1.5r in husband-related AMW, with no marginal gain in shared benefits to offset it. But from this point until $220 (twice the initial (r) bend point), the gain from the wife's higher (r) offsets the husband's loss.

For example, look at a family where the husband's AMW is $200 and the wife's AMW is zero. In 1973 total benefits for this family under OASI as currently constituted would be $231--$154 for the husband, $77 (.5 PIA) for the wife. In a Figure 1 system, total benefits would fall by $77, or by one-third. But as can be seen in Figure 2, which uses actual 1973 OASI rules, at the $200 level (r) equals .39, whereas at the $100 level it is 1.08. Because of the higher (r), the loss of the $100 spouse benefit is cushioned by the fact that each spouse now receives $108 in his or her own right, for a family total of $216. Because of the change in (r), their total loss is $15 or 6.4 percent. Beyond $220, however, the slope is negative, although at a much smaller rate. It is not until AMW is

$370 that the absolute loss once again reaches $37 per month. It should be noted that even these reduced losses overstate the impact on many families receiving a spouse benefit. Figure 2 assumes that the wife's AMW is zero. This need not be the case, for redundant contributions could have been made by a wife whose earnings record was not sufficient to provide benefits greater than the spouse benefit. In an earnings sharing system, such contributions are not redundant, and will be included in total AMW. In the previous example, where a wife was receiving a spouse benefit based on her husband's $200 AMW, earnings sharing would increase total family benefits if her AMW were over $7.

Beneficiaries who are single continue to be unaffected by a shift to earnings sharing, under the assumptions of Figure 2, but now two-earner families are affected. Because earnings sharing allows total AMW to be split, some two-earner families can increase total benefits. In general, the wider the range between the AMW of a wife and her husband, the more likely it is that they will be in different (r) ranges and will thus gain from the change. For those two-earner families in the same (r) range, total benefits do not change--only within-family distribution of personal benefits. One group of two-earner families, however, could be negatively affected. If the wife is receiving a minimum benefit and her husband has an AMW above the minimum, total family benefits may fall, since the marginal gains from shifting benefits to the lower AMW are zero until average AMW equals $78. At this point, the marginal (r) then increases to 1.08, and the negative impact is quickly reversed.

The creation of the 1973 Social Security Exact Match File makes it possible to simulate the impact across the entire OASI beneficiary population of replacing the dependent spouse system with a pure earnings

sharing system. The Exact Match File merges individual records from the 1973 Current Population Survey with actual OASI earnings and benefit records. Using the OASI rules relating contributions to benefits in 1973 (Table 1) we can measure the marginal impact of the change not only for one- and two-earner families but also across AMW levels of these families.

Table 2 uses the actual AMW records of married couples eligible to receive OASI benefits in 1973 to examine the distribution of those benefits across families with different AMW combinations. The break points for AMW are the 1973 PIA coefficient bend points (Table 1). As expected, on average low-AMW, one-earner families actually gain from earnings sharing. Those at the minimum level would increase yearly benefits from $1521 to $2028, that is by $507, or 33 percent. Those between the minimum and $110 would increase benefits by $208, or 11 percent. The great majority of one-earner families, however, would lose total benefits. Those between $110 and $220 would average losses of $252 per year, or 10 percent. The losses for those between $220 and $400 would average $319, or 9 percent. For those between $400 and $550, losses would average $583, or 13 percent. At the highest range, 550 and above, losses would be $941, or 17 percent. Looking across row 1 yields a similar result for one-earner households in which the wife is the earner. Over all, total benefits for one-earner families fall from $7.3 B to $6.7 B, or 8 percent.

For two-earner families, average benefits fall slightly, from $4263 to $4220, and total payments from $5.3 B to $5.2 B. As predicted, the principal losers among two-earner families are those where one spouse is at the minimum level. When both spouses are at the minimum, benefits are unchanged. However, if the husband has an AMW between $78 and $110, total benefits fall from $2294 to $2038, or 11 percent. For those between $110 and $220, this changes to a gain of $99, or 4 percent. Across all

Table 2. Distributional Impact of Replacing the Dependent-Spouse System With Earnings Sharing Across AIMs (1973)

AIM of the Husband	Wife Ineligible[a] (1)	Minimum Benefit[b] (2)	AIM of the Wife: $78 to $110 (3)	$110 to $230 (4)	$230 to $400 (5)	$400 to $550 (6)	Wife Eligible[c] (7)	Total
Husband Ineligible[d]		$1,521[d] $2,028[e] 5[f]	$1,820 2,028 4%	$2,476 2,218 8%	$3,693 3,389 4%	$4,537 3,948 4%	$2,746 2,514 6%	$2,746 2,515 5%
Minimum Benefit	$1,521 2,028 5	2,028 2,028 3	2,159 2,071 7	2,730 2,838 3	3,401 3,455 4	4,559 4,096 2	2,889 2,870 4	2,013 2,331 4
$78 to $110	1,820 2,028 5	2,294 2,038 3	2,313 2,313 2	2,909 2,945 3	3,598 3,680 4	4,487 4,374 2	3,068 3,073 3	2,182 2,331 5
$110 to $230	2,511 2,259 10	2,734 2,833 20	2,895 2,999 16	3,483 3,603 16	3,993 3,993 10	4,642 4,650 15	3,356 3,401 15	2,812 2,665 16
$230 to $400	3,678 3,399 48	3,430 3,591 45	3,766 3,820 46	4,139 4,139 51	4,768 4,768 52	5,469 5,480 35	4,263 4,262 49	3,912 3,721 48
$400 to $550	4,515 3,932 21	4,372 4,220 21	4,566 4,401 17	4,631 4,614 16	5,387 5,401 21	6,152 6,152 35	5,046 4,961 20	4,717 4,323 21
$550 and over	5,622 4,681 3	•	•	•	•	•	6,207 5,959 3	5,856 5,192 3
Husband Eligible[c]	3,507 3,192 100	3,604 3,509 93	3,702 3,682 96	4,024 4,028 92	4,754 4,760 94	5,457 5,457 94	4,263 4,220 37[g]	3,795 3,584 97
Total (row percentage)	3,507 3,192 60	3,501 3,434 8	3,627 3,616 5	3,900 3,883 12	4,690 4,677 11	5,390 5,354 4	4,150 4,117 40	3,760[h] 3,562

Key: Social Security Exact Match File (1973).

Notes: This is a subsample of all married couples covered by OASI. It includes all married couples in which both the husband and the wife are aged 65 or greater and in which at least one member is eligible to receive OASI benefits on his or her own earnings record. No women were in the $500 and over AIM range in 1973.

[a] Less than 1 percent of column population in this cell.

[b] Column 1 includes families in which the wife is ineligible for OASI benefits based on her own earnings record.

[c] Columns 2 through 6 include families where both husband and wife are eligible for OASI benefits based on their own earnings record.

[d] Column 7 includes all couples in categories 2 - 6.

[e] Yearly total mean family OASI benefit under present dependent spouse system. Yearly total benefit is the greater of two individual retired worker benefits or one retired worker benefit and one spouse benefit.

[f] Total mean family OASI benefit under a system of earnings sharing where individual benefits are based on one-half of total family AIM.

[g] Percentage of all couples in column who fall into this cell.

[h] Percentage of families in which both spouses are eligible for OASI benefits based on their own earnings records.

[i] Total covered population is 3.59 million married couples with total OASI benefits under our current system equal to $12.6 billion and equal to $11.9 billion under earnings sharing. Benefits going to one-earner families fall from $7.4 billion to $6.7 billion or 8 percent. Benefits going to two-earner families would fall from $5.3 billion to $5.2 billion or 2 percent.

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families, the effect of earnings sharing is to reduce total benefits from $12.6 B to $11.9 B, or 5 percent.

In examining these figures, it is important to bear in mind that our current dependent-spouse system, in the presence of a minimum benefit and a decreasing PIA coefficient, redistributes income to only certain types of one-earner families. Table 2 shows that the principal gainers of this system are families with high-wage, male workers. It is these families who would be most seriously affected by earnings sharing. However even for the great majority of this subset of high-wage, one-earner families, benefits would fall at most by 13 percent.

The Impact of Earnings Sharings in 1980

The 1977 Amendments to the Social Security Act have significantly changed the PIA coefficient bend points (see Table 1) as well as the minimum benefit level; but these changes should not affect the 1973 results. Figure 3 shows the net change in total benefits under 1979 OASI regulations for a one-earner family where the wife has a zero AMW. The minimum AMW level is now $134.44. Thus under earnings sharing an AMW below this point would yield net gains of $60.50 per month. The break-even point is $180, which is by coincidence a bend point. Total benefits fall with a slope of -.48 until $268.88 (twice the minimum), then, as in 1973, marginal benefits increase. For this reason, the total benefit loss at an AMW of $360 is only $4.39, and it is not until an AMW of $640 is reached that benefits once again fall as much as $42.66. The maximum fall in total benefits is at $1085. At this point the slope is once again positive, so that at $2175 losses equal only $16.

It is possible to approximate the impact of moving to earnings sharing under the 1979 rules both now and in the future. Table 3 shows the impact on one-earner families across average yearly earnings (AMW multiplied by

Table 3. Impact of Earnings Sharing on One-Earner Families under Present OASI Benefit Rules (1979 Dollars)

Average OASI Covered Earnings[a]	Total OASI Benefits[b]	Change in Total OASI Benefits[c]		Cumulative Distribution of 1979 OASI Benefit Population[d]
	(1)	(2)	(3)	(4)
$ 0	$ 2,178	$ 726	+33.3	-
1,613	2,178	726	+33.3	10.1
2,160	2,916	0	0.0	16.7
3,000	3,320	-416	-12.5	23.5
3,227[e]	3,428	-512	-14.9	25.4
4,000	3,800	-200	-5.3	32.0
4,320	3,953	-52	-1.3	34.6
5,000	4,280	-174	-4.1	39.8
7,000	5,240	-494	-9.4	54.2
9,000	6,200	-814	-13.1	72.1
11,000	7,160	-1,134	-15.8	88.4
13,020	8,129	-1,430	-17.6	95.9
15,000	8,575	-1,269	-14.8	97.6
18,000	9,250	-984	-10.6	100.0
21,000	9,925	-699	-7.0	100
24,000	10,600	-414	-3.9	100
26,040	11,058	-193	-1.7	100
30,000	11,950	-490	-4.1	100
Average	5,602			

Notes:

[a]Average OASI Covered Earnings are Average Monthly Wages (AMW) multiplied by 12.

[b]Total OASI benefits include both a retired worker benefit and a spouse benefit for a couple both eligible and retiring at age 65. Benefits are based on the 1979 Primary Insurance Amount (PIA) formula (See Table 1).

[c]Change in total OASI benefits measures the difference between current total benefits and benefits received in an earnings sharing system in which AMW was equally shared and spouse benefit removed.

[d]Cumulative distribution of 1979 OASI benefit population. The distribution of the beneficiary population is based on the actual distribution of the beneficiary population at the end of 1977 ([illegible], forthcoming), adjusted for inflation. While inflation adjustments in the bend points should make the distribution neutral with respect to inflation, the distribution will move toward the upper end owing to the increase in real AMW of new beneficiaries.

[e]Federal SSI payments guaranteed aged married couples $3748 in 1979.

12). As was the case in 1973, not all one-earner families lose. Those below $2160 gain. The majority of one-earner families would lose at most 10 percent of current benefits. The greatest losses (10 percent or more) are clustered within the $9,000 to $15,000 range, which encompasses the highest 25 percent of previous wage earners. The other area where losses are above 10 percent is among the 9 percent of beneficiaries with average earnings between $3,000 and $4,000.

Since there is no relationship between contributions made into the system and the marginal benefits generated by the spouse benefit, such benefits must be justified on grounds of need--social adequacy. It is difficult to argue that the highest 25 percent of the previous wage earning population should receive additional benefits on redistributive grounds. The redistribution case is more appealing for lower wage earners, although here, too, it is difficult to support the argument that one-earner families with a total AMW equal to their identical two-earner counterparts deserve higher benefits.[5]

II. THE CURRENT EARNINGS SHARING PROPOSALS

Who Pays and Who Collects

The earnings sharing proposal simulated in the previous section shows that the redistributional impact across beneficiaries is much less than might be expected. Those who lose from removing the spouse benefit are cushioned to a large degree by the tilt in the PIA coefficient. This would be true for most people currently retired or nearing retirement age. As was seen in the 1973 simulations, average benefits to male-headed one-earner families fell from $3507 to $3192, that is, they would receive 9 percent less than under the current system, and the major losses would occur at the upper end of the wage distribution. Two-earner family benefits

remain virtually the same. Going to an earnings sharing system in 1973 would have reduced total benefits to all married couples by $0.7 B, or 5 percent. Clearly such a change would have only a minor impact on most individual families or on the size of the system's liabilities.

While the 1978 Advisory Council suggested that earnings sharing was a possible solution to the current unequal treatment of women, it did not recommend its implementation at this time. Rather, it used the principle of earnings sharing to recommend two specific changes in the current system. The first addressed the issue of divorce. The council here recognized the equal partner principle of the family and recommended that each divorced spouse should be entitled to one-half of the total earnings record accumulated during the marriage, but only if the marriage lasted 10 years. For the first 10 years of marriage, a homemaker would remain dependent on her husband and would have no vested right to any part of his earnings stream. It is notable that this is one of the first proposals ever made by the advisory council which would explicitly increase the benefits of one group of beneficiaries, divorced homemakers, at the expense of another group of beneficiaries, divorced workers. This is in sharp contrast to the usual method of increasing the benefits of some group by enlarging the liabilities of the system and thus making it more necessary to increase the taxes paid by the current generation. The reluctance to decrease benefits regardless of the justification for doing so is one major impediment to a fuller earnings sharing system, even when these decreases are minor.

The second proposal is much more in keeping with the traditional method of increasing benefits to one group by simply increasing the size of OASI expenditures. The council recommended that survivor benefits no longer be based on the joint and two-thirds to survivor formulation.[6] In

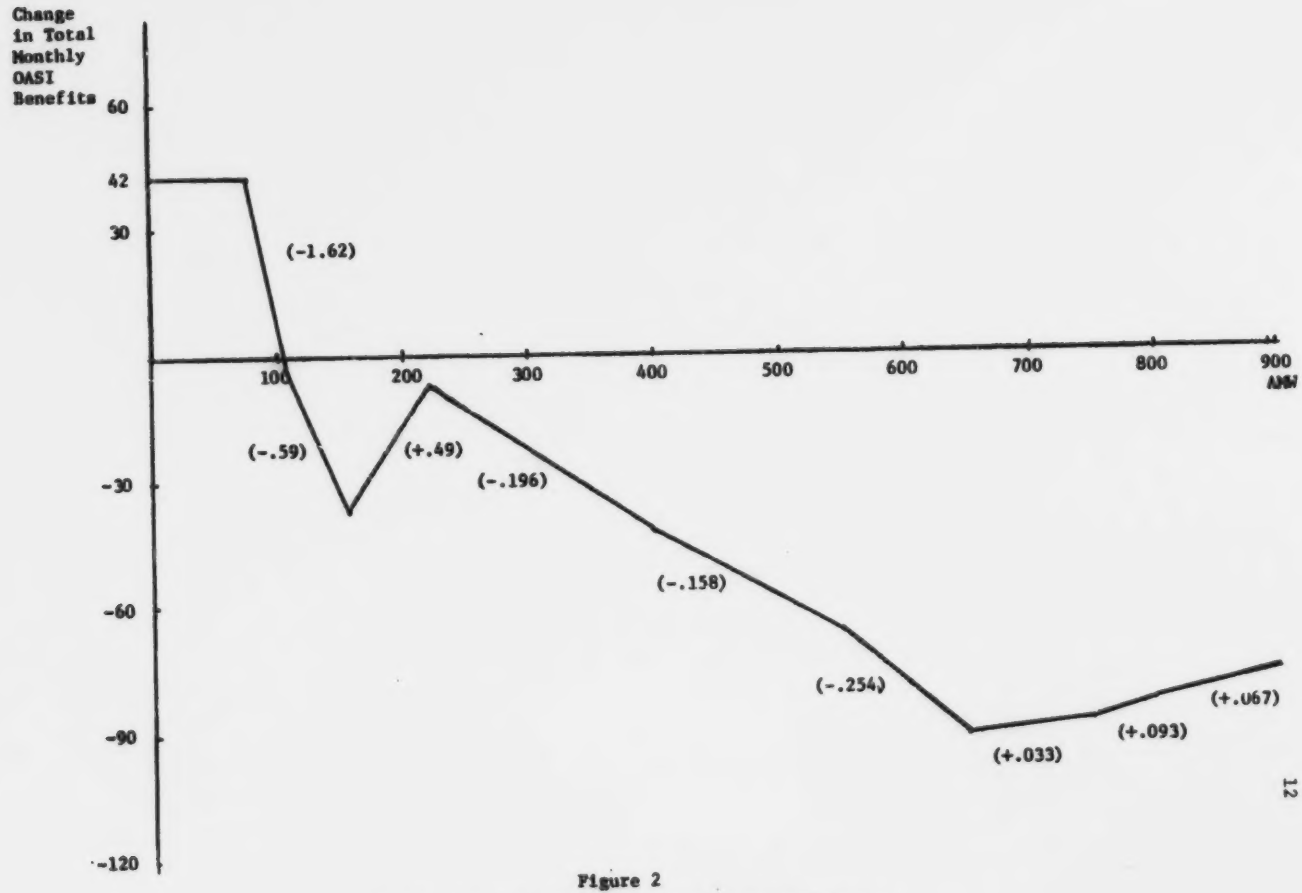
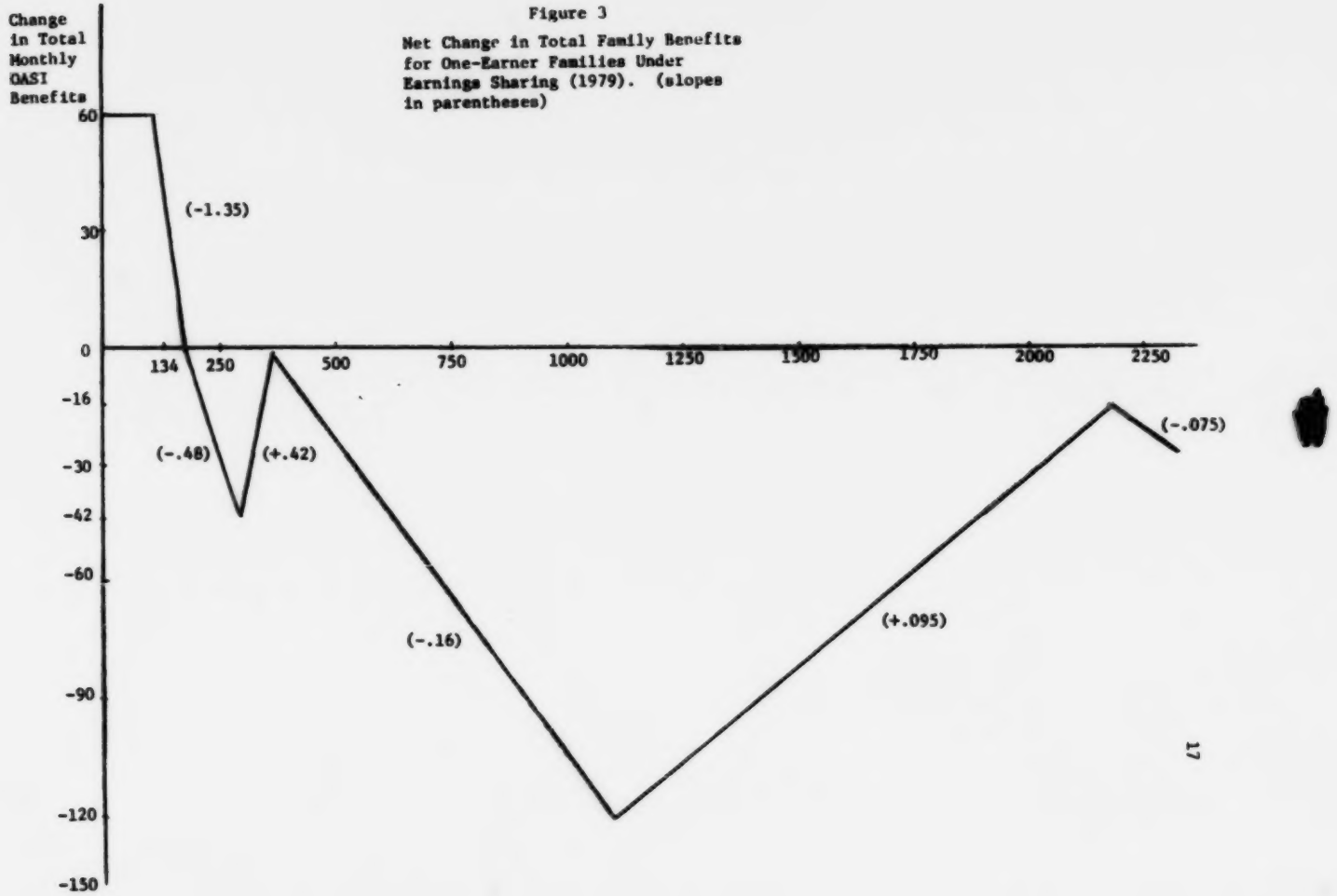


Figure 2

Net Change in Total Family Benefits for One-Earner Families under Earnings Sharing (1973) (slopes in parentheses)

Figure 3

Net Change in Total Family Benefits for One-Earner Families Under Earnings Sharing (1979). (slopes in parentheses)



keeping with the equal partner concept of the family they recommended that survivor benefits should be based on an AMW that was the sum of all previous earnings by the couple. This increase in survivor benefits would not, however, be offset by a reduction in benefits to another group--in this case, the same couple when both spouses are alive. Rather, it would be financed by increased taxes raised from the current generation.

It is important to note that an earnings sharing system can be compatible with our current joint and two-thirds survivor system. Earnings sharing need not result in a joint and one-half annuity system--one in which the shared AMW yields two equal PIAs to husband and wife when both are alive, but falls to one PIA at the death of one or the other. It is a simple matter to reset the benefit schedule so that when both spouses are alive they each get 3/4 PIA or 1.5 PIA for the family. At the death of one spouse, the survivor will continue to get his or her 3/4 PIA but will also receive a 1/4 survivor PIA from the deceased spouse's benefit. Hence total benefit equals PIA. Earnings sharing need only change the method by which PIA is initially estimated, not the joint and two-thirds method of allocating income across the lifetime of both spouses within a family. More importantly, from a policy standpoint, recognition of this flexibility allows the earnings sharing issue to be separated from the issue of whether some survivors should receive higher benefits by increasing the size of the OASI tax bill.

The Role of Women

The simulation in the previous section suggests that earnings sharing will have only a minor impact on income distribution or on the total costs of the system. In these dimensions, it can be classified as simply an incremental change, especially when it is compared with alternatives such

as a two-tier benefit structure on a double-decker system, which would significantly alter the social insurance-social adequacy nature of OASI.[7] However, adoption of the principle of earnings sharing would signal a fundamental change in the perception of the family and the roles of women and men within the family. And it would require significant change in the kind of insurance social security would provide. This includes disability insurance (DI), as well as old age and survivors insurance (OASI). It is the reasonableness of this new perception of the role of women and men within a family on which the decision to implement earnings sharing must be made.

Clearly, earnings sharing treats men and women as equal partners in the maintenance of the family. In doing so, it frees a woman to choose to work at home, with no fear that an unforeseen marital split will leave her with reduced or no OASI protection in old age. It also rewards women who choose to go into the labor market, by more closely relating future OASI benefits to taxes paid into the system while in the labor market. But it no longer provides extra benefits to the families of women who choose not to work in the labor market. As Holden (1978) points out, the spouse benefit was an implicit return to homemakers for which no payments were necessary on their part. Its removal ends one method of redistributing income from single people and two-earner families to traditional one-earner families. Because such transfers go primarily to high-income households, it is difficult, on income adequacy grounds, to fault their replacement by earnings sharings.

More difficult to justify is the presumption implicit in earnings sharing that married women could and should be able to move in and out of the labor market as easily as men. Clearly the steady increase in the

labor force participation of married women suggests that such movement is occurring. But just as clearly many women still remain completely out of the labor force.

In a one-earner family where an older husband retires, his benefits under earnings sharing would be based on only one-half his AMW, until his wife was also eligible to retire. Under the present system, the wife is not, of course, eligible to receive a spouse benefit either, until she is at retirement age, but the worker's benefit that the husband receives is larger than it would be under earnings sharing. The equal-partner presumption implicit in earnings sharing is that in such households a younger wife is capable of entering the work force and should, if necessary, do so to supplement her husband's retirement benefits. In like manner the husband could and should, if necessary, take on more of the homemaking responsibilities.

A potentially more serious problem exists with respect to disability insurance. If the earner in a one-earner household becomes disabled, benefits are based on his share of AMW. Once again, the presumption is that additional income could and should be provided by his able-bodied wife. There is yet another problem with respect to the care of dependent children. All of these problems and special cases, however, are capable of being handled under earnings sharing. But their solutions are sensitive to the reasonableness of the basic proposition that men and women should and could move between house work and labor market work.

Conclusion

The changes involved in a move to earnings sharing can, in summary, be viewed as incremental in some respects, fundamental in others.

They are incremental in that their impact on the benefits of current

beneficiaries or on those nearing beneficiary age would be relatively minor. Most two-earner families would gain slightly or be unaffected; most middle-income, one-earner families would lose slightly, and higher-income, one-earner families would lose moderately. Low-income, one-earner families would actually gain. The impact on the total expenditures of the OASI system would be very small. Married women would have added incentives to enter the labor force and OASI would more closely follow the horizontal equity proposition that equal contributions yield equal benefits.

Earnings sharing would require a fundamental change in the social security system's perception of the family and the roles of women and men within the family. An earning sharing system would treat women and men as equal partners in maintaining and supporting their family and would provide old age, survivors, and disability insurance in accordance with these principles.

Clearly, such a change would recognize the changing nature of the family and the role of women in the labor force, but equally clearly, it would put an added responsibility on both women and men to be able to move between home and labor market work. It is on the reasonableness of this proposition that support for earnings sharing most depends.

Table 4. Comparison of Total Family Benefits Under The Current Dependent Spouse System and Earnings Sharing at Various AIME Levels

AIME of the husband		AIME of the Wife						
		$0[d]	80[d]	80	136	211	300	422
$ 80	Dependent Spouse[a]	183	183	244				
	Earnings Sharing[b]	244	244	244				
	Difference[c]	+61	+61	0				
136	Dependent Spouse	183	183	244	244			
	Earnings Sharing	244	244	244	244			
	Difference	+61	+61	0	0			
211	Dependent Spouse	285	285	312	312	380		
	Earnings Sharing	244	262	262	312	380		
	Difference	-41	-23	-50	0	0		
300	Dependent Spouse	328	328	340	340	408	437	
	Earnings Sharing	270	342	342	384	408	437	
	Difference	-58	+14	+2	+44	0	0	
422	Dependent Spouse	385	385	385[e]	385[e]	447	475	514
	Earnings Sharing	380	405	405	423	447	475	514
	Difference	-5	+20	+20	+38	0	0	0
750	Dependent Spouse	544	544	544[e]	544[e]	552	581	620
	Earnings Sharing	485	510	510	528	552	581	620
	Difference	-59	-34	-34	-16	0	0	0
1000	Dependent Spouse	664	664	664[e]	664[e]	664[e]	664[e]	700
	Earnings Sharing	565	590	590	608	632	660	700
	Difference	-99	-74	-74	-56	-32	-4	0
1274	Dependent Spouse	795	795	795[e]	795[e]	795[e]	795[e]	795[e]
	Earnings Sharing	652	678	678	696	720	748	787
	Difference	-143	-117	-117	-99	-75	-47	-8
1500	Dependent Spouse	846	846	846[e]	846[e]	846[e]	846[e]	846[e]
	Earnings Sharing	725	750	750	768	792	820	859
	Difference	-121	-96	-96	-78	-54	-26	+7
1750	Dependent Spouse	902	902	902[e]	902[e]	902[e]	902[e]	902[e]
	Earnings Sharing	805	830	830	848	862	890	929
	Difference	-97	-72	-72	-64	-40	-12	+27
1911	Dependent Spouse	938	938	938[e]	938[e]	938[e]	938[e]	938[e]
	Earnings Sharing	856	882	882	900	924	952	991
	Difference	-82	-56	-56	-38	-14	+14	+53
2548	Dependent Spouse	1082	1082	1082[e]	1082[e]	1082[e]	1082[e]	1082[e]
	Earnings Sharing	1062	1072	1072	1080	1092	1105	1123
	Difference	-22	-10	-10	-2	+10	+33	+41

Notes: Based on 1981 rules which will apply to those aged 65 in 1984.

[a] Total monthly benefits for a couple under present OASI Dependent Spouse System.

[b] Total monthly benefits for a couple under Earnings Sharing.

[c] a - b

[d] Not eligible for a retired worker benefit.

[e] Wife is dually entitled since spouse benefit exceeds her retired worker benefit.

FOOTNOTES

[1]As the Social Security Amendments were originally conceived, only a nonworking wife was eligible to receive a spouse benefit. Today both women and men can receive such a benefit, based on the earnings record of their spouse. However, a working husband with a homemaker wife is still the dominant case, and for clarity of discussion, it is the example used throughout the paper.

[2]Until 1977, a couple had to be married for 20 years before the nonworking spouse had a vested right to a spouse benefit. The 1977 Amendment to the Social Security Act reduced this to 10 years.

[3]OASI approximates a joint and two-third insurance system. That is if both the husband and wife in a household are alive and eligible for OASI in any one period, the family receives a monthly benefit of 1.5P. If the husband is alive but his spouse is dead, the benefit equals two-thirds of 1.5P, which is P. If the wife is alive but the husband dead, benefits again equal P. P is based on the earnings record of the highest earner. For example if a married couple receives $3,000 per year in OASI benefits when both are alive, then the death of one member lowers benefits to $2,000. Since single people by definition have no spouse they at most receive P in any period.

[4]Taxes paid by younger generations have been sufficient to allow all OASI beneficiaries to receive a greater than actuarially fair return on their contributions into OASI. However, this is changing. Those aged 65 in 1972 were receiving a 50 percent intergenerational transfer compared to the age cohort 80 and older, who were receiving a 90 percent intergenerational transfer. The maturing nature of the system together with the

fall in fertility rates makes it impossible to continue to provide every one with a positive OASI transfer without significantly raising OASI taxes (see Burkhauser and Warlick 1979).

[5]This argument is made even more difficult when other means of achieving income adequacy goals are considered. In 1979, for instance, a low-income married couple was protected by Supplemental Security Income and could receive up to $3746 in federal SSI benefits alone. This program would completely cushion any losses sustained by those with average yearly earnings of $3000-$4000. Alternatively, redistribution within OASI is possible by simply increasing either the range of the first break point or increasing (r). Both of these solutions would aid low-income aged people in a more systematic manner than the current dependent spouse system. It should be noted that in essence the first solution is the two-tier approach to income support and the second solution is a form of the double-decker solution.

[6]In the dependent spouse model of social security, if both spouses are alive, benefits include a worker benefit (PIA) and a spouse benefit (.5PIA). At the death of one member the survivor receives (PIA) in benefits. Hence benefits are reduced to two-thirds of the amount when both spouses were alive. This is also a standard form of private annuity payment.

[7]A two-tier system would resemble Figure 1 with a constant (r) relating contributions to benefits in an actuarially fair manner. All attempts to provide a socially adequate income would be done through SSI. A double-decker system would make the minimum benefit of Figure 3 a demogrant, but would significantly enlarge its value, with some constant (r) thereafter. Both these systems would have redistributional impacts far in excess of earnings sharing.

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Ms. OAKAR. I have some written questions I would appreciate your responding to.

Dr. BURKHAUSER. I would be happy to.

[The written questions submitted by Chairwoman Oakar, along with the answers subsequently received from Dr. Burkhauser follow:]

Question. In your fine and detailed study of earnings sharing, you mention that it would be possible to implement an earnings sharing plan that would cost little, benefit many, and hurt only a few. How do you reconcile your finding with some of the recent Social Security Administration studies of earnings sharing?

Answer. Over the history of the Old-Age-Survivors and Disability Insurance system large across generational transfers have made it possible for all beneficiaries to anticipate future benefits in excess of what their contributions could have gained them in a private actuarial fair private insurance system. These across generational transfers will be possible in the future only by significantly raising social security taxes and even then for many young workers today, benefits will not equal those available in a private insurance system.

That some people can anticipate more and some less than an actuarially fair return on the taxes they pay does not make Social Security an unfair program. On the contrary, one of the functions of government is to redistribute income to provide a socially adequate income for the poor. However, the current method of redistributing income within Social Security does not recognize the changing family relationships of women and men.

The present spouse benefit fails on equity and efficiency grounds as a redistributive mechanism. Its replacement by an earnings sharing system as outlined in my paper, "Earning Sharing: Incremental and Fundamental Reform," would bring the system into line with the social reality of the working women. It would make the system both more equitable and more efficient.

My calculations of costs are based on replacing the spouse benefit with an OASI system based on earnings sharing. This will have little effect on overall costs because its primary effect is on within family social security benefits. Under the current dependent spouse system a housewife has no direct right to benefits and will lose them if she is divorced after less than 10 years of marriage. Even if she is married for a longer period she can't receive benefits until her husband retires and even then receives only one-third of total family benefits. Under earnings sharing she is entitled immediately to one-half of all benefits earned in the household.

There would be some across family changes in benefits. Most one-earner families who currently receive spouse benefits would lose to some extent while most two-earner families would gain slightly. But because of the tilt in the PIA formula one-earner families would not lose the full 33 percent of total family benefits associated with a non-contributing spouse benefit. For instance, if the change were made for workers age 65 in 1984 one-earner families, the maximum loss would be 18 percent but most would lose much less. For instance, if a wife had even a modest earnings

record, which currently yields no additional benefits under a dependent spouse system, this loss would be significantly reduced. I estimated that the majority of one-earner families would lose less than 10 percent of benefits. In addition, SSI would make up any reductions for low income one-earner couples. Earnings sharing would have little effect on overall costs because ending the spouse benefits virtually eliminates the additional costs related to its enactment.

Note, however, that I have discussed only the cost effects within the retired worker and survivors portion of OASDI. Extending disability coverage to homemakers would significantly increase costs unless it was offset by reduced coverage of workers. This could be done along earnings sharing lines or one option would be to give the family the right to split protection in the way best suited to its needs. Some families would choose full coverage for the market worker, some would choose equal splitting of coverage, others would choose to cover the homemaker more. The cost of increasing disability coverage under various reform proposals are more fully discussed by William Johnson and William Burfield in "Disability Insurance Under Proposed Reforms" in "A Challenge to Social Security—The Changing Roles of Women and Men in American Society," Richard Burkhauser and Karen Holden, eds. (Academic Press, in press).

Most Social Security Administration cost estimates would not end the spouse benefit and would simply increase disability coverage. This straight add-on would necessitate increasing Social Security payroll taxes.

Most Social Security Administration cost estimate studies of earnings sharing look at it as a supplement, to rather than a replacement of, the spouse benefit and would use it to increase disability coverage of homemakers with no reduction in coverage of workers. When implemented in this fashion, an increase in social security taxes is inevitable. If implemented as a replacement for a spouse benefit system which no longer fits the economic or social reality of the 1980's, no increase in social security taxes are necessary.

Question. You correctly note that earnings sharing implies that social security must fundamentally change its perception of the family and the roles of men and women within it. Could you please explain why this would be a positive change? How do you assess the Administration's proposal, compared to your own study of women and social security?

Answer. In an era when divorce was rare and few married women had market careers, the Social Security System with reasonable logic virtually ignored the taxes paid by working women and made benefits to a housewife wholly dependent on her husband's earnings. Today, divorce is very prevalent and a lifetime commitment to the labor force is the norm for women. Yet Social Security continues to ignore these changes in family structure. As currently constituted it gives little reward for taxes paid by working wives and no benefits to homemakers divorced after fewer than 10 years of marriage.

Social Security is providing insurance and welfare benefits based on the concept that a family consists of a male full-time worker and his dependent non-working wife who stays at home to raise children. Unfortunately most households no longer fit this pattern so in our present society, the system is both inequitable and inefficient in meeting its insurance and welfare goals. It penalizes women who work and families who share childrearing and market work responsibility. It raises the same equity and efficiency issues as those caused by the so-called "marriage tax" aspects of the Federal Income Tax. And for the same reasons both should be changed to accommodate the reality of a changed family structure. Both the dependent spouse system and the "marriage tax" are federal government imposed economic sanctions against women and men who break sexual stereotypes. Their presence reinforces these stereotypes.

The Administration to my knowledge has made no proposals which would end the biases now contained in the Social Security system. However, President Reagan recognized these biases in his campaign for President and promised to do something to reduce them. I am therefore hopeful that some new proposals will be forthcoming. I believe earnings sharing would be the best alternative to the present dependent spouse system.

Ms. OAKAR. Thank you. I wanted you to know that I really agree with you on earnings sharing with one small exception, and I think it is very interesting that your chapter, which I had a chance to read before this hearing, indicates that it would not cost a lot of money. All of the figures I have ever asked for on this issue from the Social Security Administration are just astronomical. Commonsense tells you that it just cannot be true, and yet we need detailed

analyses like yours to show us that indeed it would not be a huge expense. I do not think the homemakers dependent spouse benefit should decrease. This benefit would take care of the homemaker who is not covered now by disability, and it certainly would be much fairer to the working spouse who contributes to the system. I am very, very pleased with that part of your book. I think it is very, very interesting. Miss Sweeney.

STATEMENT OF EILEEN SWEENEY

Ms. SWEENEY. I have submitted a complete statement.

I am Eileen P. Sweeney, a staff attorney at the National Senior Citizens Law Center (NSCLC). I am most appreciative of the opportunity to appear before the task force today.

NSCLC is a national support center, specializing in the legal problems of elderly poor people. We are funded by the Legal Services Corporation and the Administration on Aging.

I am particularly pleased that the task force is holding this hearing today. While just months ago women's and elderly organizations looked optimistically toward gaining equity and adequacy for women under social security, now we are faced with efforts to cut back on what little there is for women under the act. Whereas before we urged elimination of the extremely restrictive widow's standard in disability, now we are faced with arguing that workers should not be subjected to this inhumane provision. It is time to focus again on the inadequacies of the current system as it affects women, to consider steps to improve upon it, and alternatives to cuts as a means of financing the system.

Because the proposed disability cuts have not received the same attention as the proposed cuts in the retirement and survivor's programs, I will concentrate my discussion on these cuts. First, it should be noted that the disability insurance program is in good financial condition. Therefore, there is not even a weak financial justification for these heartless cutbacks. Second, while the administration talks of helping only the truly disabled, implying that many receiving disability benefits are not disabled and freeloading, our experience has been to the contrary: The disability denial rate has increased so dramatically over the past 10 years, that SSA is routinely denying benefits to individuals who are severely disabled and clearly unable to engage in substantial gainful activity. For example, in 1971, SSA approved 370,856 disability applications while denying 356,491 at the initial level of review. By 1979, only 295,323 claims were approved at the initial level, while 552,705 were denied. This represents not only a significant increase in the denial rate but also a drop in the actual number of claims being approved.

Ms. OAKAR. You are saying most people that apply do not get it.

Ms. SWEENEY. That is right. They do not get it despite the fact many are eligible to receive those benefits.

Review of the specific cuts proposed reflect the fact that while some will have a severe impact upon both women and men, both young and old, others will take their most severe toll upon the elderly, particularly elderly women.

For example, in order to establish eligibility for worker's disability benefits, a person must show that he is both fully insured and

currently insured. The administration proposes to require that workers establish that they have worked in covered employment in 30 out of the last 40 quarters. This means that a worker will have to have worked 7½ out of the last 10 years in covered employment, not the current 5 out of 10, in order to establish currently insured status. The burden of such a rule will fall upon those with gaps in their work records, including women who have taken time off to raise their children. Given the current structure of the disability program, including the fact that it considers age as a relevant factor in assessing disability, it is likely that the burden will fall heaviest upon older displaced homemakers.

Ms. OAKAR. You have very important testimony and I know we have other witnesses also. I think that if you could summarize we could have time for questions.

Ms. SWEENEY. I cut out a substantial amount of it.

Ms. OAKAR. I did not mean to interrupt you but I want to make sure we hear from everyone and I have a few questions for the record.

Ms. SWEENEY. I appreciate the problem.

Second, the administration proposes to drastically change the definition of disability, eliminating all consideration of the vocational factors—age, education, and work experience—referred to by the administration as the "non-medical" factors.

Ms. OAKAR. Age is categorized as a nonmedical problem, right?

Ms. SWEENEY. That is right.

The result of their proposal will be the utilization of the standard currently used for disabled widows: Individuals will have to establish that their disability meets or equals the listing of impairments. Given the specificity of the listings as well as their restrictive view of disabling conditions, many disabled widows are currently being denied benefits. It is both unnecessary and inhumane to impose that standard on workers as well.

The administration's proposal to increase the duration of impairment time period from 12 to 24 months will most likely result in the denial of benefits to individuals with psychiatric and/or emotional impairments because physicians will not be willing to make such a lengthy prognosis of disability. This will create just one more obstacle to eligibility for a group of individuals least capable of discerning the various hurdles and overcoming them.

Increasing the waiting period for disability benefits from 5 to 6 months will simply increase the suffering among those disabled individuals who do not have savings upon which to rely. Women most often fall in this category.

There are two additional points which I believe must be made, as they most directly relate to the quality of living of indigent elderly and disabled women and because they are relevant to the statements of Mr. Myers and the gentleman who spoke before me.

The supplemental security income program provides a Federal welfare benefit to aged, blind, and disabled individuals of $238 monthly, $357 for a couple. While it is difficult to admit, it must be recognized that these meager amounts are inadequate to assure that aged, blind, and disabled individuals who rely upon them are able to live at even a minimal level of subsistence. All too often,

SSI recipients are forced to make choices which are not just hard but potentially matters of survival.

Yet, the administration is attempting to lull the Congress and the American people into believing that cuts in social security, such as elimination of the minimum benefit, will not injure anyone, because SSI will be there to help out. Until Congress provides for a decent SSI benefit, none should be fooled by the attractive, but tragic, fallacy that only those eligible for SSI are the truly needy and that receipt of SSI meets the needs of the elderly and disabled poor and provides the safety net which Mr. Myers referred to.

Finally, the failure to provide cost-of-living increases in the future, or any reduction in the increases will be most burdensome for older women. They are the most likely to be subsisting solely upon social security or SSI, having no alternative income to which to turn. Further, their social security benefits tend to be among the lowest.

As the vast majority of the elderly poor, they are the least able to bear the burdens of the budget-cutting activities. Their costs are fixed. They have no excesses to cut. Their sacrifices have already been made and continue to be made daily.

If cuts are to be made, and sacrifices expected, they should be addressed to those who are both financially and physically able to bear the resulting sacrifices, certainly not the elderly poor.

Thank you.

[The prepared statement of Ms. Sweeney follows:]

PREPARED STATEMENT OF EILEEN P. SWEENEY, NATIONAL SENIOR CITIZENS LAW CENTER, WASHINGTON, D.C.

I am Eileen P. Sweeney, a staff attorney at the National Senior Citizens Law Center (NSCLC). We are most appreciative of the opportunity to appear before the Task Force today. My analysis will generally focus on the proposed cuts in the Disability Insurance program and will stress the following points:

1. The disability insurance trust fund is solvent; and the cuts proposed are unnecessary and inhumane. The burden of many of the cuts will be borne most heavily by older women.

2. Contrary to popular belief, documentation provided by the Social Security Administration establishes that the disability program is not providing benefits to large numbers of ineligible people. Rather, significant numbers of eligible individuals are already currently being denied benefits.

3. No one should permit himself or herself to be fooled into thinking that only those eligible for Supplemental Security Income (SSI) are the "truly needy." Further, it must be recognized that SSI benefits are inadequate to meet even the most basic of subsistence needs.

4. Any tampering with the cost-of-living increases in Social Security and SSI will most seriously disadvantage the elderly and disabled poor, the vast majority of whom are women.

NSCLC is a national support center, specializing in the legal problems of elderly poor people. We are funded by the Legal Services Corporation and the Administration on Aging of the Department of Health and Human Services. Pursuant to the Law Center's Legal Services Corporation grant, we provide support services to legal services attorneys throughout the country with respect to the legal problems of their elderly clients. Under the Administration on Aging grant, we provide technical assistance to state and local offices on aging, with a view toward expanding the delivery of legal services to elderly persons. My responsibilities include working with legal services and aging advocates on the Social Security and Supplemental Security Income problems of their clients, the majority of whom are elderly and disabled women.

I am particularly pleased that the Task Force is holding this hearing today. While just months ago women's and elderly organizations looked optimistically toward gaining equity and adequacy for women under Social Security, now we are faced

with efforts to cut back on what little there is for women under the Act. Whereas before we urged elimination of the extremely restrictive widow's standard in disability, now we are faced with arguing that workers should not be subjected to this inhumane provision. It is time to focus again on the inadequacies of the current system as it affects women, to consider steps to improve upon it, and alternatives to cuts as a means of financing the system.

Because the proposed disability cuts have not received the same attention as the proposed cuts in the retirement and survivor's programs, I will concentrate my discussion on these cuts. First, it should be noted that the disability insurance program is in good financial condition. Therefore, there is not even a weak financial justification for these heartless cutbacks. Second, while the Administration talks of helping only the "truly disabled," implying that many receiving disability benefits are not disabled and free-loading, our experience has been to the contrary: the disability denial rate has increased so dramatically over the past ten years, that SSA is routinely denying benefits to individuals who are severely disabled and clearly unable to engage in substantial gainful activity. For example, in 1971, SSA approved 370,856 disability applications while denying 356,491 at the initial level of review. By 1979, only 295,323 claims were approved at the initial level, while 552,705 were denied. This represents not only a significant increase in the denial rate but also a drop in the actual number of claims being approved. The documentation for these statements is set forth in Exhibit A, provided by William Driver, then-Commissioner of Social Security, to Jonathan Stein pursuant to a Freedom of Information Act request, March 25, 1980.

Review of the specific cuts proposed reflects the fact that while some will have a severe impact upon both women and men, both young and old, others will take their most severe toll upon the elderly, particularly elderly women.

"CURRENTLY INSURED" STATUS

For example, in order to establish eligibility for worker's disability benefits, a person must show that she is both "fully insured" and "currently insured." The Administration proposes to require that workers establish that they have worked in covered employment in 30 out of the last 40 quarters. This means that a worker will have to have worked 7½ out of the last 10 years in covered employment, not the current 5 out of 10, in order to establish "currently insured" status. The burden of such a rule will fall upon those with gaps in their work records, including women who have taken time off to raise their children. Given the current structure of the disability program, including the fact that it considers age as a relevant factor in asessing disability, it is likely that the burden will fall heaviest upon older displaced homemakers. Many of these women have some earnings record from their youth which, while small, when combined with later work efforts will provide them with "fully insured" status. However, as they have generally been outside the paid workforce for years, often decades, increasing the recency-of-work test from 5 to 7½ years will significantly reduce their chances of establishing insured status for disability. It is clear that the Administration understands the result of this proposal, as it expects to save at least $10 billion from this cut alone in the next four years. It is inadequate to argue that these women will be covered by the disabled widow's program. First, the test for disability in that program is extremely restrictive, excluding many severely disabled women. Second, many of these women are divorced, they are not widows. Third, some are married to older retired workers, but are not themselves old enough to receive retirement benefits on their spouse's accounts.

DEFINITION OF DISABILITY

The Administration proposes to drastically change the definition of disability, eliminating all consideration of the vocational factors (age, education, and work experience), referred to by the Administration as the "non-medical" factors. The justification given is that "more than one-third of disability cases age 60 to 65 involve non-medical factors." In that statement, the Administration has made its own worst case. The result of their proposal will be the utilization of the standards currently used for disabled widows: individuals will have to establish that their disability meets or equals the Listing of Impairments. Given the specificity of the Listings as well as their restrictive view of disabling conditions, many disabled widows are currently being denied benefits. It is both unnecessary and inhumane to impose that standard on workers as well. Under the current standard for workers, SSA utilizes the medical-vocational guidelines, commonly referred to as "the grids," in assessing disability. The grids take into account work experience, transferability of skills, education, and age. As a person's age increases, the grids take a harder

look at the individual's ability to transfer skills from one job to another, in combination with the individual's physical and/or mental impairments. This is true for individuals over age 50.

For example, Ms. A, age 51, worked for thirty years as a machine sewer in a linen factory where she sat for 8 hours each day. During the last few years, she had developed severe back pains and discomfort which doctors attributed to a degenerative arthritic condition. She could no longer sit for an hour at a time and found it difficult to use her hands constantly. Currently, in evaluating her disability, once SSA concludes that she can no longer perform her current job, they must decide whether there are other jobs which she could still perform. In making this assessment, they consider whether Ms. A, age 51, with a third grade education, has any transferable skills. It is very likely that they would determine that she does not, given her age, education and work experience. She would therefore be found disabled under the Act.

Under the Administration's proposal, SSA will not consider age, education or work experience. Instead, they will determine simply whether Ms. A's impairment is included in the Listings or the equivalent of a Listing. If not, she will be denied, no matter how impossible it will be for her to continue to work.

DURATION OF IMPAIRMENT

The Administration seeks to increase the duration of impairment time period from 12 to 24 months. This will most likely result in the denial of benefits to individuals with psychiatric and/or emotional impairments because physicians will not be willing to make such a lengthy prognosis of disability. It is often already difficult to convince physicians that they can predict 12 months into the future in these cases. This will create just one more obstacle to eligibility for a group of individuals least capable of discerning the various hurdles and overcoming them.

WAITING PERIOD

Increasing the waiting period for disability benefits from 5 to 6 months will simply increase the suffering among those disabled individuals who do not have excessive, or any, savings upon which to rely. Women most often fall in this category. The Administration justifies the proposed change by arguing that six months "conforms to the terms of most private disability insurance programs." This fact is irrelevant at best. First, many older women do not have access to the benefits of private pension plans, for a wide variety of reasons, most involving the exclusionary provisions of these plans. Second, for those who will be entitled to private disability insurance in the sixth month, the first five months of disability can be extremely difficult. This is particularly true where the person was not eligible for private short-term disability because he or she had already left the work place due to a degenerative condition which only eventually rose to a level where it would be recognized as a disabling impairment. The Administration's alleged justification would seem more appropriate if offered as a reason for totally eliminating the waiting period, rather than extending it.

SUPPLEMENTAL SECURITY INCOME (SSI)

There are two additional points which I believe must be made, as they most directly relate to the quality of living of indigent elderly and disabled women.

The Supplemental Security Income program provides a federal welfare benefit to aged, blind, and disabled individuals of $238 monthly, $357 for a couple. (On July 1, 1981, it is expected that these figures will increase to $264.70 and $397, respectively.) While it is difficult to admit, it must be recognized that these meagre amounts are inadequate to assure that aged, blind, and disabled individuals who rely upon them are able to live at even a minimal level of subsistence. All too often, SSI recipients are forced to make choices which are not just "hard" but potentially matters of survival: will there be heat or food or needed medication or rent? It is almost always impossible to provide for all of these needs on the SSI budget.

Yet, the Administration is attempting to lull the Congress and the American people into believing that cuts in Social Security, such as elimination of the minimum benefit, will not injure anyone, because SSI will be there to help out. Until Congress provides for a decent SSI benefit, none should be fooled by this attractive, but tragic, fallacy that only those on SSI are the "truly needy" and that receipt of SSI meets the needs of the elderly and disabled poor, the vast majority of whom are women.

COST-OF-LIVING INCREASES

The failure to provide cost-of-living increases in the future, or any reduction in the increases will be most burdensome for older women. They are the most likely to be subsisting solely upon Social Security or SSI, having no alternative income to which to turn. Further, their Social Security benefits tend tc be among the lowest, due to (1) long years of work at low pay, (2) the fact that divorced and/or separated spouses receive only one-half of the benefit received by the worker, or (3) low number of years in the paid work force.

As the vast majority of the elderly poor, they are the least able to bear the burdens of the budget-cutting activities. Their costs are fixed. They do not luxuriate in meat on the table or 70° heated homes in the below-freezing cold of winter. They have no excesses to cut. Their sacrifices have already been made and continue to be made daily.

If cuts are to be made, and sacrifices expected, they should be addressed to those who are both financially and physically able to bear the resulting sacrifices, certainly not elderly poor.

CONCLUSION

The cuts comtemplated by the Administration perpetuate and exacerbate sexual discrimination existing in the Social Security program while totally ignoring both the sex and age discrimination in the work place. It is unreasonable to expect that disabled individuals will continue to work when they are unable to do so or that their employers will desire their continued employment. Job replacement for older individuals is extremely difficult; for older women, it is worse. The older women, unable to meet their needs and ineligible for Social Security, if the cuts are approved, will find themselves relegated to either SSI or the state general assistance programs, generally offering even less than SSI, until they are age 62, at which time they will be forever penalized, forced to take the lowered age 62 retirement benefits.

EXHIBIT A

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
Baltimore, Md., March, 25, 1980.

MR. JONATHAN M. STEIN,
Chief of Law Reform, Community Legal Services,
Sylvania House, Philadelphia, Pa.

DEAR MR. STEIN: In reeponse to your request of February 25, I am enclosing data on social security disabililty claims at the inital and reconsideration levels for the past 9 years.

I regret that we do not have figures on initial claims and reconsiderations for 1970 and 1972 and reconsiderations for 1971. In addition, no data for 1980 are available yet.

The officials in our Office of Hearings and Appeals have been asked to ascertain the availability of data on disability claims at appellate levels above the reconsideration level and to write to you. You should hear from them soon.

Sincerely,

WILLIAM J. DRIVER,
Commissioner of Social Security.

Enclosure.

SOCIAL SECURITY DISABILITY CLAIMS

Region	Initial claims		Reconsiderations	
	Approvals	Denials	Approvals	Denials
1971:				
Boston	21,006	14,652		
New York	50,649	42,814		
Philadelphia	41,701	37,822		
Atlanta	63,158	71,296		
Chicago	74,595	71,040		
Dallas	34,065	39,208		
Kansas City	18,644	15,422		
Denver	7,849	7,343		
San Francisco	46,799	44,932		

SOCIAL SECURITY DISABILITY CLAIMS—Continued

Region	Initial claims		Reconsiderations	
	Approvals	Denials	Approvals	Denials
Seattle	12,390	11,962		
Total	370,856	356,491		
1974:				
Boston	22,086	16,955	2,899	3,955
New York	59,139	44,954	7,827	10,990
Philadelphia	47,368	46,241	7,297	12,375
Atlanta	69,249	72,893	12,890	22,160
Chicago	84,464	67,588	11,794	19,217
Dallas	35,542	42,203	7,196	13,164
Kansas City	20,059	15,372	2,322	4,077
Denver	8,191	7,604	1,149	1,916
San Francisco	48,045	47,250	6,993	13,188
Seattle	13,980	12,846	1,766	3,517
Total	408,123	373,906	62,133	104,559
1974:				
Boston	25,309	16,499	2,977	6,069
New York	64,267	39,647	7,689	13,382
Philadelphia	50,119	46,241	7,074	19,251
Atlanta	75,971	77,312	12,778	33,411
Chicago	92,096	70,333	12,581	25,257
Dallas	42,412	44,737	8,554	18,570
Kansas City	21,721	15,594	3,007	5,880
Denver	9,614	8,101	1,279	2,821
San Francisco	51,602	46,954	7,734	17,557
Seattle	15,305	10,807	2,016	4,206
Total	448,416	376,225	65,689	146,404
1975:				
Boston	24,607	20,541	3,070	5,586
New York	79,962	70,836	10,173	18,347
Philadelphia	50,870	53,230	7,370	18,230
Atlanta	85,696	102,775	14,506	38,359
Chicago	96,237	90,843	13,723	28,941
Dallas	42,234	53,724	9,063	18,625
Kansas City	21,193	18,537	3,192	5,286
Denver	9,470	9,502	1,288	2,897
San Francisco	59,848	60,563	9,732	19,522
Seattle	15,139	14,244	2,090	4,392
Total	485,256	494,795	74,207	160,185
1976:				
Boston	22,383	23,411	2,466	6,584
New York	62,082	62,038	7,677	15,902
Philadelphia	46,679	52,332	5,635	15,068
Atlanta	73,074	96,490	11,286	36,481
Chicago	83,649	90,471	10,102	25,570
Dallas	36,933	56,988	8,678	17,965
Kansas City	18,935	19,716	2,534	5,779
Denver	8,484	9,790	1,068	2,700
San Francisco	51,693	60,250	7,029	19,125
Seattle	12,807	15,668	1,622	4,738
Total	416,719	487,154	58,097	149,912
1977:				
Boston	20,769	25,588	2,542	8,886
New York	65,424	65,916	7,768	20,509
Philadelphia	38,462	56,746	4,845	21,187
Atlanta	66,282	111,452	10,700	47,718

SOCIAL SECURITY DISABILITY CLAIMS—Continued

Region	Initial claims		Reconsiderations	
	Approvals	Denials	Approvals	Denials
Chicago	66,355	100,572	9,106	38,544
Dallas	33,898	61,614	6,622	22,494
Kansas City	18,385	21,180	2,491	7,550
Denver	8,471	11,150	1,163	3,740
San Francisco	35,126	66,539	5,819	24,053
Seattle	9,017	17,018	1,316	6,411
Total	362,189	537,775	52,372	201,092
1978				
Boston	14,653	22,811	1,942	8,359
New York	35,411	63,659	5,296	23,687
Philadelphia	32,736	46,524	3,741	17,162
Atlanta	58,493	100,159	8,584	40,471
Chicago	62,818	88,389	8,655	35,049
Dallas	27,978	52,780	5,404	19,470
Kansas City	16,871	19,085	2,022	7,180
Denver	7,560	9,538	964	3,198
San Francisco	36,184	58,699	5,933	22,627
Seattle	8,854	14,983	1,289	5,596
Total	301,558	476,627	43,830	182,799
1979				
Boston	14,973	24,652	1,753	7,307
New York	36,593	75,044	4,788	24,986
Philadelphia	36,567	59,137	3,275	17,956
Atlanta	56,314	113,246	7,345	36,008
Chicago	58,993	98,837	6,161	30,850
Dallas	25,164	66,511	3,669	21,311
Kansas City	16,446	22,263	1,544	6,036
Denver	6,667	10,525	774	3,030
San Francisco	35,030	66,123	4,312	19,253
Seattle	8,576	16,367	965	4,716
Total	295,323	552,705	34,586	171,453

Ms. OAKAR. Thank you. Since our time is so limited, I wonder if you would mind answering some written questions?

Ms. SWEENEY. Not at all.

[The written question submitted by Chairwoman Oakar, along with the answer subsequently received from Ms. Sweeney follow:]

Question. Your assessment of the disability problems that women will face under the Administration proposals is very disturbing. Why, do you suppose, has the Administration so seriously overstated the drain on disability funds? Where do they get their information?

Answer. I believe that your question is most simply answered by submitting for your consideration the analysis prepared by the Study Group on Social Security for Families, Children, and Youth, authorized by Elizabeth Wickenden, and contained in Update No. 13, issued July 14, 1981, pages 1-2.

The Study Group suggests a number of political reasons for the Administration's decision to claim that the short-falls will be much larger than those projected by either Robert M. Ball, former Commissioner of Social Security and representative of Save Our Security ("S.O.S."), or Alice Rivlin, Director of the Congressional Budget Office. Having made these political choices, the Administration therefore has found it to be most beneficial to rely upon the most pessimistic economic assumptions possible in proposing cuts in Social Security. Given the Administration's statements in other contexts regarding the bright future of the American economy under its budget-cutting scheme, it is, at a minimum, ironic that "worst case" assumptions are being utilized to justify the Social Security cuts.

UPDATE No. 13, JULY 14, 1981

INTERIM REPORT ON SOCIAL SECURITY

"Social Security Bankrupt" shout the headlines; "The Social Security System Will be Destroyed" says Senator William L. Armstrong, Chairman of the Senate Social Security Subcommittee of the Senate Finance Committee in opening hearings on July 7 on Administration proposals for drastic benefit cuts. (See Updates No. 11 and No. 12 for details). People everywhere ask themselves, "Will my check continue to come?" and "Will my benefits be there when my time comes to retire?" In the circumstances these are valid questions but the scare tactics that provoke them are cruel and misleading.

What are the facts about social security financing?

It is true that the present combination of rising prices and continuing unemployment will cause a short-fall between payroll tax inflow and benefit payment outflow in the OASI Trust Fund beginning in the fall of 1982 as the recently released Trustees' report indicates. But it is equally true that the two other funds for disability and health insurance have a surplus and that the OASI short-fall is relatively small and of short duration. Beginning in about five years favorable demographic factors will start to reverse this trend so that the years between 1985 and 2005 will not present problems. The drastic increase in the aging population will not occur until that time.

Figures, figures, figures

Social Security financing policy requires economic aggregates, assumptions and predictions that lend themselves to wildly differing conclusions. Thus former Social Security Commissioner Rober M. Ball predicts a five year short-fall in OASI of $4.9 billion, not counting the further reductions that will result from the benefit reductions in the 1982 Budget (see below). This could easily be met by interfund borrowing with a possible back-up of authority to borrow from the general fund to meet any potential cash-flow problems. Alice Rivlin, Director of the Congressional Budget Office came independently to the same conclusion in her testimony to the Senate Committee on Aging using even less optimistic assumptions about economic functioning during that period. HHS Secretary Richard S. Schweiker, on the other hand predicts a short-fall of $111 billion during the same period requiring, according to his recommendations, a permanent restructuring that would produce benefit cuts for new beneficiaries of up to 40 percent, with a 23-percent average cut in all categories. It is little wonder that the ordinary citizen throws up his hands in despair at such a wide discrepancy.

Why are the administration estimates so high?

It is significant that the Administration has chosen the most pessimistic possible economic assumptions in making its recommendations for social security benefit cuts and the most optimistic when putting forward its budget and tax proposals to benefit the upper income population. There are four reasons for this. In proposing a net reduction in benefit payments over the five year period of $111 billion (to meet a short-fall of $4.9 billion) they prepare the way for a windfall of over $100 billion for the Unified Federal Budget. This windfall surplus can be "borrowed" for other federal spending, such as the military, and thus help the Administration move toward its promise of a balanced Federal Budget. This is a good reason for removing Social Security from the Unified Federal Budget. (Its inclusion was an ill-advised step taken in 1969).

The second reasons for over-stating the anticipated short-fall is a desire to cut back on future social security payroll taxes from their present level and thus assure a continued program reduction. This is consistent with the administration goal of reducing Federal expenditures to 19 percent of GNP as compared to 22-23 percent today. Yet poll after poll has shown people willing to pay present or even higher social security tax for adequate protection. These cutbacks reflect the conservative and employers' position; not that of the future beneficiaries.

The third reason is the avowed desire of the administration to remove from the benefit structure the so-called "welfare" or "social" components. This process which is already evident in pending proposals, would eliminate over time any special consideration for low earners, families, the disabled and early retirees. There is a mistaken notion that the only essential benefits are those for middle and upper-income old age retirees. Such changes bear with particular harshness on minority groups, women, people forced to retire because of disability and others who are obliged—by reason of health or disemployment—to retire early.

The fourth reason is to use the present short-term crisis as a springboard for dealing with problems of demographic imbalance which will occur in about thirty

years. This ignores the favorable picture of the intervening years and requires assumptions about the economy that cannot be made effectively so far in advance.

Ms. OAKAR. Thank you. Our next witness has been before this task force before and she is a specialist in women's retirement income problems, so Edith, I am happy you were able to find time to be here today.

STATEMENT OF EDITH FIERST

Ms. FIERST. Thank you. I greatly appreciate the opportunity to be here. I admire you for continuing to listen carefully when there are so many witnesses and the hour is getting so late. To save time I will submit my written testimony and try to summarize from memory the main points in it.

First, I agree with the point that was made here earlier about the importance of distinguishing between the short-term and the long-term funding deficit. We do have to do something promptly about the immediate funding deficit, the short-term one, but we do not have to act this year to avoid the deficit that will not occur until the baby boom generation reaches retirement age beginning in 2010. However, I think it is a good idea to start looking at the serious inequities that exist in social security so that they can be resolved together with the long-term deficit. In that sense the administration's proposal may have served a valuable purpose, by beginning discussion now of how to change the social security system more fundamentally.

One point for discussion is universal coverage which is usually looked at as a way of increasing the revenue to the social security funds. But it has a more important effect, that is covering the many women particularly homemakers who are left out of any system today. Among the divorced homemaker wives of Federal employees, for example, only those who are divorced from Foreign Service employees have any survivor protection. The rest are facing possible destitution. Even among the Foreign Service divorcees, those who were divorced prior to February 15, 1981, whose plight it was that aroused the country to the point of passing legislation, have been excluded from the protections of the new act. Only a handful of these women have been widowed so far, but the day is coming when perhaps 150 or 200 will be widows without survivor benefits. I believe they should be blanketed into social security. As my written testimony mentions, I am representing the Association of American Foreign Service Women in the attempt to get that coverage.

Ms. OAKAR. We will have you back before our subcommittee then.

Ms. FIERST. I am also concerned about what is happening in the Railroad Retirement System.

There is a very complicated system under which taxes are paid as they are under social security. An interchange of funds follows between social security and the Railroad Reviewers Board designed to assure railroad retirees a tier of benefits equal to social security. However, divorced spouses, widows, and remarried widows are not covered. Thus the Railroad Retirement System is getting money from social security which is intended to be paid to the divorced

spouses and remarried widows, but this money is not going to them.

Those women are also facing destitution because they have no protection under any federally financed or administered program. A proposal to do something about that is coming up on the 12th of this month before a conference committee considering the Railroad Retirement System.

This is another example of why I think universal coverage should be looked at from the point of view of women as well as from the point of view of aiding the revenue side of social security.

There are a few other items I would like to mention. One is the public pension offset which was enacted in 1977 and reduces the spouse benefit payable under social security by the amount of the public pension earned by the spouse through his or her own employment.

The offset is unfair to public employees for several reasons. One is the big tax difference. The public employee's social security, which is tax free, is reduced by the amount of his or her public pension which is taxable. Thus, the public employee ends up with a taxable income instead of with a tax-free income.

In addition, no account is taken of the fact that the Federal system is supposed to substitute for social security and also for a staff pension.

I am not going to take your time to tell you the ways in which I think the public pension offset can and should be made fairer, but I feel very strongly that it should be changed. There is a proposal in the administration package to do away with so-called double dipping for the Federal employees which, if used as a model, would be much fairer to the Federal employees that the current public pension offset.

The administration has also proposed increasing the recency of work requirements for disability insurance. The current requirement falls harshly on homemakers who lost their coverage earned as workers because they stay home taking care of children. I hope that some consideration will be given to giving credit for years spent taking care of children under 6 in meeting the recency of work standard. This is needed even if the recency of work standard is not made harder.

Next, I would like to discuss the proposal of the National Commission on Social Security to provide a special m num for women who have both years in the work force and ye. at home. This proposal would assure those paid low wage rates a reasonable benefit level. The great beauty of that proposal is that it targets additional money on the really needy.

I have two other items to mention quickly. One is that the proposal to eliminate the earnings test would have a beneficial effect on divorced women who now are unable to get a benefit because their husbands continue in employment.

The second is the family maximum benefit. The administration is proposing to reduce it. This would be very harsh on surviving families. Moveover, change is needed to help families bacause at the moment, although the divorced wife gets her entitlement without regard to the family maximum, her children and the children of the current wife, as well as the current wife, all must share in

the family maximum. This often means their benefits must be reduced because of money going to another household. That is unfair.

Finally, I want to come back to earnings sharing and your bills to do something about it. I believe they have set the direction for the future. I agree with Dick Burkhauser that as the social security tax becomes greater in comparison to the benefits people derive from it, they will come to care more and more about equity. The public will come to insist upon fairness to working wives. If social security is not made equitable, people will lose faith in the system in a fundamental way, and be unwilling to continue to pay what have now become very high taxes.

Thank you very much.

[The prepared statement of Ms. Fierst follows:]

PREPARED STATEMENT OF EDITH U. FIERST, ATTORNEY AT LAW, WASHINGTON, D.C.

My name is Edith U. Fierst. I am an attorney specializing in women's retirement problems. I very much appreciate the opportunity to present my views to this Committee.

The administration has proposed wide ranging changes in Social Security. I agree that there is an immediate need to do something about the short-run funding problem. Fortunately, however, this problem can be cured with minor amendments, such as interfund borrowing and capping the annual cost of living increases in Social Security by not allowing them to exceed increase in average wages.

Changes in Social Security to solve the long-run problems will require much substantive amendments to the system, but these are not immediately necessary, since the long-run problems won't become acute until the baby generation begins to reach retirement age in the year 2010. I believe the administration has done a useful thing in initiating debate on the long-run changes, but that it would be unwise for the Congress to rush into a major overhaul of Social Security without at the same time attempting to correct the existing inadequacies and inequities that now plague the system. I am particularly interested in those that affect women and will focus my testimony on several specific problems in this catetory.

COVERAGE

We must take care of those workers and their families who have no other government-funded and administered retirement security. I am specifically concerned about the wives of federal employees and the divorced wives and remarried widows of railroad workers covered under the Railroad Retirement System.

FEDERAL EMPLOYEES

There are over 30 different federal retirement systems and it would not be feasible to me to discuss them all today. Therefore, I will choose two. First, the former wives of foreign service employees who were divorced before February 15, 1981. Although it was the plight of these women that aroused the concern and sympathy of the country and led to enactment of the Foreign Service Act of 1980, they were omitted from its coverage. Only later divorcees are helped by that Act. No one knows how many women there are who were divorced earlier, but estimates run in the neighborhood of 150 to 200 individuals. Those whose husband are living may be receiving alimony, but when their husbands die that possiblity will die with them. At present only a handful have been widowed, but some day most of the others will need survivor protection. I believe they should not be blanketed in to Social Security survivor provisions immediately, with the amount computed as though their husbands had worked in employment covered under Social Security rather than the Foreign Service. I am representing the Association of American Foreign Service women in its efforts to obtain such coverage. This is a matter both of compassion and of justice, since most of these women did voluntary work for the United States Government when they accompanied their husbands overseas. Upon them fell the burden of packing and moving, or helping their children face culture shock, and of entertaining and representing the United States Government wherever they were stationed. Frequently, they were forced to endure hardships of climate, disease, isolation, or terrorism. Furthermore, because they were aliens in these other countries, they were generally deprived of the opportunity to earn their own

income or retirement benefits. We Americans have a moral, if not legal, obligation to provide for them in old age.

The second group of federal employees are the wives of civil servants. This group has no entitlement to survivor benefits unless their husbands elect to provide it, and they lose any benefits elected by their husbands upon divorce. Thus, many face destitution in old age. They must be brought under the umbrella of Social Security.

THE RAILROAD RETIREMENT SYSTEM

Present law denies the divorced wives and remarried widows of railroad workers any benefits regardless of the length of their marriages. This is particularly unfair because the Railroad Retirement System receives money from Social Security through the interchange of funds for remarried widows and divorced spouses which it does not pay to them. This happens because the Social Security System computes and tranfers to the Railroad System the amount of money that it would pay if the people involved were covered under Social Security. But the Railroad Retirement System pays it out under its own legislation. According to a GAO report issued in March of this year, the windfall benefit to the Railroad Retirement System resulting from this difference in coverage in 1978 was $4.2 million dollars. The law must be amended, and promptly, to assure that this money goes to the women for whom it was intended. Either it should be withheld from transfer to the Railroad Retirement System and paid to the divorced women and remarried widows by Social Security, or the Railroad System should be amended to cover these women to the extent that they would be covered under Social Security.

PUBLIC PENSION OFFSET

The public pension offset must be made fairer, and a floor placed on the reduction it causes to public pensions. Under its provisions the spouse benefit payable to a public employee is reduced by the amount of that employee's public pension. This treats public employees more harshly than if they had worked in employment covered by Social Security and were subject to the dual entitlement rule. For example, it substitutes taxable income for non-taxable income; it treats Federal pensions as though they were intended merely as an alternative of Social Security rather than as a composite of Social Security and a staff pension; it ignores the fact that Social Security has a progressive formula and Federal pensions do not; it contains serious gender-based discrimination in that it is currently in effect as to most men and certain divorced women, but will not apply to the remainder of the population until December, 1982; and it permits the offset to decrease total income as inflation creeps up. It is also harsher than the Administration proposal to eliminate the so-called "windfall" for Federal retirees and others with pensions from non-covered employment. The latter applies a more moderate formula and does not reduce Social Security by more than one-half the individual's non-covered pension. At the least, the public pension offset must be brought to the same standard.

THE FAMILY MAXIMUM BENEFIT

Next I would like to discuss the family maximum benefit. Because it limits benefits payable to several persons it should not be reduced. Moreover, I believe the Family Maximum Benefit should be applied on a per-household basis rather than a per-covered employee basis as is presently the case except for divorced wives. The problem can be illustrated by looking at what happens if a covered employee dies leaving two families, one consisting of his first wife and children, and the other, of his current wife and children. The divorced wife gets an unreduced benefit, but all the children, including stepchildren who were living with the deceased employee at the time of death, even if they were being supported by their father, are covered and benefits payable to each are proportionately reduced to meet the family maximum. This may cause serious hardship to either family group, and is grossly unfair. The easy solution is to apply the maximum family benefit on a per-household basis.

REMOVAL OF THE EARNINGS TEST

Now I would like to talk about the Administration proposal to eliminate the earnings test. This is an important proposal for divorced homemakers. Under current law if a worker continues in covered employment between the ages of 65 and 72, his divorced spouse may be deprived of retirement benefits by operation of the earnings test. This is true whether the worker supports her or not—and most likely he does not since the Census Bureau reported last year that only 4 percent of divorced or separated women received alimony. Under the Administration proposal,

almost one-third of the over-65 population. Their age, sex and marital status combine to create a vulnerable status for then both socially and economically.

Although older widows represent diverse cultural, racial and socio-economic backgrounds, one common experience is shared. More than 90 percent spent a significant portion of their adult lives in traditional family roles as wives and mothers. These roles were not consciously chosen after careful consideration of varied and acceptable options; rather they were the expected activities of responsible adult women of their generation.

Widows are eligible for benefits under the old-age, survivors and disability (OASDI) program when they reach age 60. At that age, they are eligible for aged surviving spouse benefits on the earnings record of their deceased husband; however, these benefits are actuarily reduced for each month they are received before age 65. The maximum reduction is 28.5 percent at age 60. If a widow elects to receive early benefits, the amount of her monthly benefit will be reduced for her lifetime. Statistics from the Social Security Administration's retirement history study indicate that over 40 percent of aged widows elect to receive OASDI benefits at age 60 or 61. Of these beneficiaries, 47 percent were not employed and 55 percent were living below poverty. Only 41 percent had received high school diplomas and 25 had work limitations.

In 1978, the median income for widows under age 60 was $6,144. Those with jobs fared significantly better with an average income of $7,743 than those without whose incomes averaged only $3,500 annually. More than one-third of the non-working widows had either never held a job or had not worked in the preceeding 20 years. Twenty-seven percent had incomes below the poverty line and 18 percent reported incomes below $2,000 (under two-thirds of poverty).

Twenty-three percent of widows between the ages of 44 and 60 reported a major health problem that was left untreated, we can assume for lack of financial resources. As we know, the risk and degree of health problems and limitations increases with age.

More than three quarters of women who are widowed before age 60 received a lump-sum life insurance payment which averaged $10,710.

Eighty-three percent applied this benefit toward the payment of their husband's final expenses and 24-percent had nothing left. The data show that the most economically disadvantaged widows experience a significant improvement in their economic status after they begin receiving social security benefits.

Although the administration has recommended no change in the rate of actuarial reduction used to determine the widows and widowers benefit, because the amount of the basic benefit will be reduced, the widow's benefit will be reduced as well. Clearly, widows who choose to receive reduced benefits at age 60 will be significantly affected by any loss of income.

The widow of a worker who elected early retirement benefits will receive a substantially reduced monthly benefit as the result of the proposed change in calculating early retirement benefits. Whereas currently the dependent widow of a worker who retires at age 62 receives 80 percent of his PIA for life, under the administrations proposals, her benefit will be reduced to 55 percent.

The proposed elimination of the minimum benefit will affect thousands of older widows. Since older women comprise almost 90 percent of minimum beneficiaries and since over half of these beneficiaries are over 70 years of age, widowed women are likely to be overrepresented in this category. There is not sufficient information available to know who will be effected by this change and to what degree.

Widows who are entitled to benefits based on their own earnings record will receive a reduced benefit if the proposed change in the formula for computing the basic benefit is enacted. This will further reduce women's already low benefits reflective of their low earnings and interrupted work patterns. Because a zero is averaged in to the benefit formula for every year (over 5) that a worker spends in uncovered employment such as homemaking and child rearing, former homemakers are furhter penalized by this change.

The proposal to phase out social security benefits to college-age students who are children of deceased or disabled workers or early retirees will place and additional hardship on their widowed mothers. Almost 800,000 students between the ages of 18 and 22 received social security benefits in 1979. Approximately 62 percent of these were children of deceased workers. Almost two-thirds of these benefits went to students whose family income was under $15,000 and one-third went to students whose family income was under $5,000.

In addition to supporting themselves and their families, widowed mothers of college-age children will now be responsible for financing their children's higher education. For many young people, this will mean that a college education is simply not possible. Cuts in other Federal student loan programs will further limit these

her entitlement would be independent of his earnings, a great improvement over the present system.

RECENCY OF WORK

The Administration has proposed making more stringent the recency of work test used to determine eligibility for disability benefits. In my opinion, current law should be amended to give a woman worker credit for years out of the labor force caring for child under six. At present the test operates to disqualify a covered worker who has stopped work temporarily in order to care for her children. If we want mothers to be able to take time out of the work force to care for their children in early childhood, and I believe we do, we cannot continue to place the entire risk of economic consequences for child care years on these mothers. I therefore favor permitting child care years to count toward recency of work, especially if the test is made harder.

SPECIAL MINIMUM FOR WORKING MOTHERS

My next suggestion also relates to the needs of mothers who spend years at home caring for children under the age of six, and that is to adopt the excellent suggestion of the National Commission on Social Security to provide a special minimum benefit to low wage workers who have a combination of years in the labor force and years caring for young children. Mr. Robert Myers, now Deputy Commissioner of Social Security for Programs, was part of the National Commission which made this suggestion and I hope that he will use his present office to implement it.

THE WIDOWS GAP

I believe the best solution to the problems of the widow's gap is to permit women who are widowed at early ages to draw benefits for two years at the time of widowhood, rather than wait until age 60. Two years of income would help them to recover from the initial emotional trauma, and prepare themselves for self-support.

EQUITY FOR MARRIED WOMEN WORKERS

Finally, I come to the problem of the inequitable treatment of working wives under Social Security. The Chair of this subcommittee has introduced several bills to resolve this problem through earning sharing. In the opinion of the Social Security Advisory Council, earnings sharing is the most promising approach, and I agree with that assessment, recognizing, as did the Advisory Council, that there are major problems in implementing it. The primary difficulty is to be fair to working wives without unduly penalizing homemakers or greatly increasing costs. Because we have thirty years for the transition, I believe a fair solution can be found, and that Mary Rose Oakar's bills lead in the right direction.

Adopting a fair solution will become essential if we are to keep the confidence of the American public in Social Security. FICA used to be a minor tax which led to relatively bountiful benefits. No one felt cheated. That day is over. The tax now is high, and the benefits payable to some individuals will be significantly lower than the accumulated taxes they have paid. Once workers come to understand this, they will become far less willing to pay Social Security taxes unless the system is fair.

AS the country comes to understand the implications of Social Security for women, I believe the troops will rally behind Mary Rose Oakar and her bills. I certainly hope so.

Thank you very much for this opportunity.

Ms. OAKAR. If you have no objections, I would like to submit some written questions to you at a later date.

Ms. FIERST. I would be happy to answer any questions you might send me.

[The written question submitted by Chairwoman Oakar, along with the answer subsequently received from Ms. Fierst, follow:]

Question. Toward the end of your prepared testimony, you come out in favor of earnings sharing as the best solution to the problems women now face under the Social Security Program. You also note that the short and long term funding situation requires a great deal of thought and, down the road, some kind of alternative in the program. How can we reconcile these two seemingly competing concerns? In your opinion, is it necessary to set priorities on those problems which should first be addressed?

Answer. I believe changes necessary to avoid a short-term deficit should be made this year. They are minor. For example, the job would be done by authorizing interfund borrowing, supplemented, if necessary, by limiting the percentage of cost-of-living increases to the same percentage by which wages increase, or by delaying the date of the annual cost-of-living increase a month or two. This type of change is the first priority, and the only one that must be made this year.

Before changes to avoid the long-run deficit are made, I believe the system should be examined thoroughly to assure fairness to women. Earnings sharing and inheritance of earnings for the surviving spouses do seem the best solutions to the fundamental inequity for working wives. Such changes must be initiated slowly to avoid decreasing benefits for older women nearing retirement age. During the transition period, working wives should get higher benefits and homemakers retain current benefits. I believe this is feasible because there will be extra money in the system during the approximately 25 years after the short-run deficit ends and before the baby boom reaches retirement age when the long-run deficit will appear. This extra money can be used to finance the transition.

If the above suggestion is implemented, it will not be necessary to set priorities on the long-run problems which should be addressed first. The entire array of inequities can be addressed at the same time. If additional costs must be permanently incurred in order to remedy some inequities, for example, providing child care to disabled homemakers, we may have to make cuts elsewhere in the system. I do not agree with those opponents of the Administration proposal who are against any decreases in benefits whatsoever.

Ms. OAKAR. Our last witness of this panel is Ruth Campbell who is the research associate of the National Policy Center of Women and Aging, University of Maryland.

STATEMENT OF RUTH CAMPBELL

Ms. CAMPBELL. I want to mention a figure that has not yet been mentioned. In 1978, the median income for women over 65 was $3,759 and about 35 percent of all elderly nonmarried women live at or below the poverty line. I think that is important in looking at all those proposals.

I wanted to stress the fact that women's issues must enter the debate on refinancing so that major changes in the social security system will include more adequate and equitable benefits for women, rather than leaving these issues to be addressed in the future.

Earnings sharing, I think, has several advantages. I will not go through all of those but it is a comprehensive approach to the problems of the present system and it would particularly provide more adequate benefits for those most in need, widows and divorced persons.

In 1978, 22 percent of aged widows and 30 percent of aged divorced women were living below the poverty line.

Recent proposals aimed at remedying the financial instability would affect lower income people and women in particular, and should be reviewed from that perspective.

Raising the retirement age has been mentioned before. The majority of women elect to receive benefits before age 65 even though this results in a lower monthly benefit for the rest of their lives. It is an issue of particular concern to women.

For divorced women, widows, the ill, and those who cannot get jobs, waiting until age 68 is a hardship—or age 67.

I would like to mention jobs. Dr. Ricardo-Campbell said that many of these women take jobs raising children. I think that most of them would have to look for jobs raising children.

It is very difficult for older women—and I have been involved in this clinically—to get a job.

Also, although nursing homes have increased, still there are only 5 percent of the population in a nursing home and 80 percent of the care for the frail elderly is done by women and most of these women are middle-aged or elderly women.

Although raising the retirement age may have decided benefits for the social security fund, benefits for workers and women in particular are unclear. Many of the retirement studies are done on men. I think this is an issue which merits thorough research on the impact on women before a change takes place which could have long-range effects on the economic security of women.

Ms. OAKAR. That is something we all agree on, isn't it, that most of the studies under social security have been done on men and not women?

Ms. CAMPBELL. It may be the women's reasons for early retirement are different than men's.

Ms. OAKAR. Sure.

Ms. CAMPBELL. Second, eliminating the minimum benefit, three-quarters of the minimum beneficiaries are women, including those in low-income and part-time jobs such as domestic workers, nursing home aides, and home health care workers, divorced spouses and widows living on small dependents' allowances, all those under age 65 who meet SSI eligibility requirements except for age—SSI payments begin at 65—and retired workers receiving small Federal, State, or local pensions.

I think there have to be other ways of dealing with the double-dipping problem without attacking the poorest group of social security recipients.

Stricter benefit eligibility requirements have been discussed and I don't think I have to go over that except to say under present disability criteria about 5 percent of severely disabled widows are rejected and if you impose stricter criteria this will only increase that number.

I am particularly concerned about SSI which hasn't been mentioned in much depth. Seventy-three percent of the elderly people on SSI are women. Changes in SSI will have a profound effect on the economic security of older women.

There are various proposals, one which would calculate SSI benefits for new recipients on a retrospective rather than prospective basis to the disadvantage of aged applicants who have recently retired.

There is another one that involves more rigorous checking in order to avoid paying SSI benefits to persons with over $1,500 in assets. This amount is so low many poor older people are ineligible for SSI benefits even though they are living well below the defined poverty line.

This limit should be abolished or at the very least, raised.

The other concern involves the one-third reduction in payments when an older person moves in with his or her family.

SSI was originally intended to provide a guaranteed minimum income floor for the elderly but, as you pointed out, although it is estimated that 18 percent of the population age 65 or over are eligible, only 10 percent participate.

Ms. OAKAR. Eighty percent are eligible?

Ms. CAMPBELL. Eighteen percent are eligible. Ten percent participate. That is just an estimate. It is very difficult to know exactly how many people are eligible or if the assets test were more liberal there would be many more people.

Ms. OAKAR. There is such an attack on welfare programs. If we implemented all these changes what percentage of people do you think would have to resort then to SSI?

Ms. CAMPBELL. I don't know. I don't have a figure on that but I think a great number of people would have to. It would have to be lowered to 62.

Ms. OAKAR. SSI is part of the Social Security Act. What we would have to do is take it out of general revenue more money to accommodate that fund; is that right?

Ms. CAMPBELL. Right.

Ms. OAKAR. And there is not a move, it seems to me, to do that for programs for lower income people?

Ms. CAMPBELL. That is true.

I know there is a great stigma against welfare but a lot of people are unaware of the benefits they will get under SSI, and there have been some SSA studies that indicate reasons why people don't apply.

Since SSI is on the books, and it is certainly a very measly minimum but more than some people have, we should find some way to get more people who are eligible to participate in the program if that is what we have at present.

I don't remember anyone mentioning taxing social security benefits. It is very controversial. The President's Commission on Pension Policy recommended that happen and then that the earnings test be abolished.

The thing about the earnings test is that most of the people who would benefit are higher income workers. Eliminating the earnings test without taxing benefits would be to the advantage of middle-income and upper-income older and many women would not benefit as much as men.

Ms. OAKAR. And it would cost about $6 billion.

Ms. CAMPBELL. I think it should be liberalized but not abolished.

It is apparent that changes in the social security system must be carefully considered if the economic plight of older women in the United States is to be alleviated instead of exacerbated.

Raising the retirement age, reducing early retirement benefits, eliminating the minimum benefit, and continued reliance on current computational formulas to determine benefits, will have a much more severe impact on older women who are already suffering inadequate incomes.

[The prepared statement of Ms. Campbell follows:]

PREPARED STATEMENT OF MARILYN R. BLOCK, PH.D., DIRECTOR, AND RUTH CAMPBELL, M.S.W., RESEARCH ASSOCIATE, NATIONAL POLICY CENTER ON WOMEN AND AGING, DIVISION OF HUMAN AND COMMUNITY RESOURCES, UNIVERSITY OF MARYLAND, COLLEGE PARK, MD.

POLICY RECOMMENDATIONS CONCERNING WOMEN AND SOCIAL SECURITY

Various proposals to deal with the inadequacies and inequities facing women in the social security system have been made in recent years. However, the major focus of the past few months has been on the fund's economic stability. Measures to contain or reduce benefits have been widely debated. Although these are not all

women's issues, it is important to assess the impact on women of such proposed changes as raising the retirement age, eliminating the minimum benefit, and restricting Supplementary Security Income (SSI) coverage. As much as possible, "women's issues" must enter the debate on refinancing so that major changes in the social security system will include more adequate and equitable benefits for women, rather than leaving these issues behind to be addressed in the future.

PROPOSALS DEALING SPECIFICALLY WITH WOMEN'S ISSUES

Several options directly address the inequities between the one-earner and two-earner couple. These options require restructuring the social security system but would reward all covered work by either spouse. They also provide some protection for divorced women and recognize the work of the homemaker. These options—earnings sharing, homemaker credits, and allowing drop-out years—and options used by other countries to deal with these concerns are discussed.

Earnings sharing

The principal underlying earnings sharing is that marriage is a partnership and the family is a basic economic unit. Benefits are computed by combining the earnings of a housband and wife during their marriage, assigning each spouse 50 percent of the combined total. Each spouse would receive benefits based on his or her own social security record which would include half the sum of the couple's combined earnings during marriage plus full credit for earnings before and after marriage. The spouse's benefit would be eliminated. When one person dies, the survivor would inherit the spouse's earnings credits.

There are several advantages to earnings sharing.

1. married women would receive a more equitable benefit from the social security taxes they pay;
2. the disparity which now exists between one- and two-earner couples in retirement and survivor benefits would be reduced;
3. the woman who stays home for a number of years to raise children would not be penalized for being out of the work force;
4. divorced women would get better protection since they would have the opportunity of building up an earnings record during marriage even if they had not worked.

Earnings sharing is a comprehensive approach to the problems in the present system. As such, it desires study and serious consideration.

Homemaker credits

The spouse benefit can be viewed as an implicit, often inequitable way of rewarding the homemaker. Because the size of the husband's benefit is the key determinant of his wife's benefit, the system rewards the homework of wives of high-earning males while wives of low-earning males are penalized for engaging in the same form of work. The value of homework should not be based on the husband's market earnings. Rather, homemakers would be given credit for work done at home which could be added to credits for paid employment in the case of working wives.

The drawbacks to this plan lie in the difficulty of defining homework and assigning a value to it and providing benefits to individuals who make no financial contribution to the social security fund. The latter difficulty could be addressed by (1) financing homemaker credits through general revenues (which might be seen as unfair by workers who pay taxes for benefit credit) or (2) eliminating the spouse's benefit and requiring contributions from homemakers (which might leave the most vulnerable low-income families with no coverage).

Drop-out years

Several countries permit child-care credits for women who drop out of the labor force when they have young children. By contrast, social security benefits in the U.S. are based on average lifetime earnings; under current law the averaging period is 35 years for persons reaching age 62 after 1991. Years spent out of the labor force lower the average wage and, consequently, retirement benefits. Assignment of child care credits is a plan well-adapted to the work pattern of many women today, and it would result in a five percent increase in benefits for 35 percent of all women. It is especially favorable for divorced women who enter the work force late and retire with inadequate benefits.

Even with limitations on number of years credited or income tests, this proposal would increase social security costs. This increase could be offset if spouses' benefits were reduced or eliminated. Another drawback involves the question of equity with groups who do not follow this pattern, notably full-time working wives, single women, and low-income families who are apt to have both spouses working.

Options in other countries [1]

Foreign governments face similar problems in providing women equal treatment with men in retirement systems, and several reforms have been implemented. In general, the new approaches fall into two categories: (1) sharing of husband-wife earnings credits by splitting, combining, or substituting credits; and (2) hypothetical or voluntary contributions by women not in the paid labor force.

France.—Women who stay at home caring for at least one child can make voluntary contributions to a retirement program. The law also provides an automatic two-year social security retirement credit to women responsible for child rearing and special retirement benefit for low-income women raising a family. Earnings-sharing in divorce is allocated in proportion to the time the current wife and the ex-wife spent married to the husband, but the current wife must receive no less than half the total benefit amount.

Germany.—All non-employed women were extended voluntary retirement coverage in 1972, but the contrubutions are high and few housewives can afford to participate. Women can opt for a reduced benefit at the age of 60 if they have 10 years of retirement credit and have permanently left the work force. If a woman has less than five years of work history and has not worked for two years, she may have her contributions refunded with the option of replacing the withdrawn amount once she is re-employed.

Divorced couples must share credits earned during their marriage. A widow may receive a benefit regardless of her income, family responsibility, or age but benefits vary according to her circumstances. Men and women who are unable to make contributions due to unemployment, illness, or maternity leave are assigned hypothetical credits based on the national average earnings level by sex.

Sweden.—The two-tier system consists of a basic old-age pension paid to everyone over age 65 and an earnings-related supplement based on an individual's 15 years of highest earnings. Dependents' benefits are paid upon retirement only if the spouse has children under age 16. Survivor benefits are available to widows if they have had children. Divorced women have no claim to their ex-husband's records. Since married women receive a basic benefit in their own right, the dependent's benefit is not as important as it is in other systems.

United Kingdom.—Extensive revisions in Britain's social security system were passed in 1975 and are being phased in on a gradual basis. A married woman is entitled to a dependent's benefit (60 percent of her husband's benefit) or to her own flat-rate benefit, whichever is higher. She may also be entitled to an earnings-related benefit. Credits are provided to both men and women who care for young children or disabled adults. If the husband dies after age 65, a surviving widow at age 60 may receive the sum of both her earnings-related benefit and that of her husband in addition to her own flat-rate amount. Divorced women are entitled to use their ex-spouse's flat-rate record for earnings credit.

PROPOSALS FOR OVER-ALL CHANGES IN SOCIAL SECURITY: IMPACT ON WOMEN

The urgency of redesigning current financing for social security along with efforts to cut the budget have brought to the forefront proposals that have been talked about in recent years. Several of these changes would affect low-income people and women in particular and deserve to be reviewed from that perspective.

Raising the retirement age

Experts seem to agree that raising the retirement age for full benefits from 65 to 68 and the early retirement age for reduced benefits from 62 to 65 would alleviate the long-term funding deficit of the social security system. The plan would mean that after the year 2000, a worker would not be eligible for a full retirement benefit until age 68. Retirement at age 65 would mean a 19 percent permanent reduction in benefits, and retirement at age 62 would mean a 36 percent permanent reduction (currently benefits are reduced by 20 percent for the 62-year-old retiree). This proposal is projected to save $15 billion a year.

Since a majority of women elect to receive benefits before age 65, even though this results in a lower monthly benefit for the rest of their lives, this is an issue of particular concern to women. For divorced women, widows, the ill, and those who cannot get jobs, waiting until age 68 could present hardships. Women now opting for early retirement find their reduced benefits inadequate as they live into their 80's and 90's. With even greater benefit reductions at age 62, early retirement may not be a possible option for many.

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[1] Taken from a report by J. Gronouski. Brief description of foreign social security systems. Appendix D of "Women and retirement income programs: current issues of equity and adequacy." Library of Congress. Washington: Congressional Research Service, 1979.

Although raising the retirement age may have decided benefits for the social security fund, benefits for workers and women in particular are unclear. This is an issue which merits thorough research before a change takes place which could have long-term effects on the economic security of women.

Eliminating the minimum benefit

The minimum social security benefit is given to social security recipients who would otherwise receive a lower amount based on their employment record. The idea behind eliminating the minimum benefit is to cut down on "double-dippers," those receiving generous government pensions as well as the minimum benefit earned in employment covered by social security. However, social security figures show that only 12 percent of minimum beneficiaries receive other pension checks. Three-quarters of the minimum beneficiaries are women, including those in low-income and part-time jobs such as domestic workers, nursing home aides, and home health care workers, divorced spouses and widows living on small dependents' allowances, all those under age 65 who meet SSI eligibility requirements except for age (SSI payments begin at 65), and retired workers receiving small federal, state, or local pensions.

There would seem to be other ways of dealing with the "double-dipping problem without attacking the poorest group of social security recipients. Although most of those receiving SSI plus the minimum benefit would not be affected since SSI payments could be adjusted to make up for the amount lost, others would be forced to turn to welfare and still others would find themselves just above SSI eligibility levels.

Although the estimated savings will be $1.3 billion in 1982, the costs to SSI would increase, especially if it were extended to those between ages 62 and 65 who, without the minimum social security benefit, would not have enough income to survive.

Stricter disability benefit eligibility requirements

Stricter eligibility requirements and an overall limit in the amount of disability benefits that can be received have been proposed. These will have an impact on women who are already disadvantaged by the "recency of work" test which requires that disability applicants spend five of the previous 10 years in covered employment. Women who are in and out of the labor market because of child care and homemaking responsibilities may lose their eligibility. This test also discriminates against those with chronic or degenerative diseases who may not be able to find employment long before they are able to meet the disability criteria. Proposing that the applicant must have worked in covered employment for six of the 13 calendar quarters previous to the onset of disability adds to the difficulty.

A related proposal would reduce social security disability benefits so that the sum of all disability benefits payable under federal, state, and local programs will not exceed 80 percent of a worker's predisability earned income. The object of this change is to keep disability earnings from acting as a disincentive for work.

Under present disability criteria, 25 percent of severely disabled widows are rejected. Imposing stricter criteria will only increase that number.

Supplementary security income (SSI)

Of the 1.9 million persons over age 65 receiving public assistance in the form of SSI, 73 percent are women. Changes in SSI will thus have a profound effect on the economic security of older women. One proposed change would calculate SSI benefits for new recipients on a retrospective rather than prospective basis, to the disadvantage of aged applicants who had recently retired. A second proposed change involves more rigorous checking in order to avoid paying SSI benefits to persons with over $1500 in assets. This amount of allowable assets is so low that many poor older people are ineligible for SSI benefits even though they are living well below the officially-defined poverty line. This limit, which has not been changed since the inception of the program, should be abolished or, at the very least, raised.

Another concern with SSI involves the one-third reduction in payment when an older person moves in with his/her family. This may act as a disincentive for the family to provide care at home. Additionally, when a person is in a state institution, the SSI payment is immediately reduced to $25. This poses a hardship for those who must continue to pay for housing and other expenses while they are in the institutional setting.

SSI was originally intended to provide a guaranteed minimum income floor for the elderly. However, it is estimated that 18 percent of the population aged 65 and over are eligible, although only 10 percent participate. Research findings by the Social Security Administration suggest that eligible persons are 1) unaware of the

program, 2) more likely to live in non-urban areas, 3) have an aversion to accepting welfare, and 4) receive some kind of support from children.

Taxing social security benefits

The President's Commission on Pension Policy has recommended subjecting social security benefits to the graduated income tax, accompanied by elimination of the earnings test. This recommendation is advantageous to older women, many of whom fall in the lower-income bracket and are exempt from income tax payments. The earnings test allows social security recipients to earn up to $5500 annually; after the level has been reached benefits are reduced by $1 for every $2 earned. Subjecting retirement income from all sources to the graduated income tax and removing the earnings test (which represents a 50 percent tax on earned income above the specified limit) would be less of a work disincentive and would benefit low-income persons. Eliminating the earnings test without taxing benefits would be to the advantage of only middle-income and upper-income older persons; women would not benefit as much as men who are more frequently in the higher earnings brackets.

CONCLUSION

It is apparent that changes in the social security system must be carefully considered if the economic plight of older women in the U.S. is to be alleviated instead of exacerbated. Raising the retirement age, reducing early retirement benefits, eliminating the minimum benefit, and continued reliance on current computational formulas to determine benefits, will have a much more severe impact on older women who are already suffering inadequate incomes.

Ms. OAKAR. Thank you very much for your testimony. Your entire testimony, which is very interesting, we will submit for the record.

I am going to submit questions to all of you in writing which I hope you will respond to. One quick question. Anyone is free to answer if you know.

Do you know how many older people have an additional pension plan besides social security?

Ms. FIERST. A HEW study which was published a year or two ago, said 12 percent of women had a private pension, and that included both those who had earned them and those who received them as wives.

Ms. OAKAR. Does anybody disagree with that?

Dr. BURKHAUSER. I think you want to distinguish between older people now who have pension plans and older people as they are coming on.

Ms. OAKAR. My question was right now. We are talking about these cuts right now.

Dr. BURKHAUSER. The Retirement History Survey issues study shows that about 50 percent of people reaching age 65 now have pension plans but, you are right, if you look at the entire older population——

Ms. OAKAR. What is the breakdown for women?

Dr. BURKHAUSER. I don't know because unfortunately the same problem exists. The study only looked at men and unmarried women.

Dr. RICARDO-CAMPBELL. Just to carry that on, private pension plans do not give spouses benefit without reducing the primary benefit, and most men do not elect to reduce the primary. Some do. It varies.

Ms. OAKAR. It used to be Federal law that you had to sign if you wanted a spouse to receive a benefit, and so many women were shocked to discover when their husbands passed away that they had no benefits, no pension, because the husband had never signed the form that would transfer the benefits.

If we go by the 12-percent figure relating to women and private pensions, then we may conclude that most of those people are pretty dependent on Social Security, wouldn't you say?

Ms. FIERST. That same study, "Social Security and the Changing Roles of Men and Women," shows 60 percent of women have no other form of income. The study is available from the Department of Health and Human Services.

Ms. OAKAR. What we are saying is that many elderly women have no source of income outside of social security. So, if most people have agreed cuts would affect older women it is a real problem.

Let me thank all of you for coming and for your patience. I know we have another very distinguished panel and I will be submitting some questions for the record. We would be more than happy to include any additional testimony in our record.

Thank you all very much.

Ms. OAKAR. Our last panel is a group of organizations that do represent women and older Americans and if you would all be able to come up I would be very happy.

I want to thank all of you for being here, for your patience. It has been a long day but I think maybe we will hear some of our most significant testimony from you so I am very pleased that you are here and I certainly welcome your remarks.

We would proceed as we have in the past. If you care to summarize your statement that would be helpful and then I do have questions for all of you. We will take you in the order you are sitting. It doesn't matter to me. Ms. King, if you would like to proceed.

PANEL 3, ORGANIZATIONS REPRESENTING WOMEN AND THE ELDERLY, CONSISTING OF, LAURIE SHIELDS, EXECUTIVE DIRECTOR, OLDER WOMEN'S LEAGUE; MILDRED B. JONES, BOARD MEMBER, DISPLACED HOMEMAKERS NETWORK, INC.; NANCY KING, COORDINATOR, NATIONAL COALITION ON OLDER WOMEN'S ISSUES; AND, DIRECTOR, OLDER WOMEN'S PROGRAM, CENTER FOR WOMEN'S POLICY STUDIES; ARVONNE FRASER, MEMBER, ADVISORY BOARD, WOMEN'S EQUITY ACTION LEAGUE; JOYCE HAMLIN, SECRETARY OF LEGISLATIVE AFFAIRS, WOMEN'S DIVISION, GENERAL BOARD OF GLOBAL MINISTRIES, UNITED METHODIST CHURCH; ALSO ON BEHALF OF THE NATIONAL COUNCIL OF CHURCHES, UNITED CHURCH OF CHRIST, AND OTHER RELIGIOUS ORGANIZATIONS; AND ELEANOR C. SMEAL, PRESIDENT, NATIONAL ORGANIZATION FOR WOMEN (NOW)

STATEMENT OF NANCY KING

Ms. KING. I will read the initial part of my statement and then summarize some of the more specific data that I have included toward the end.

I am testifying today on behalf of the National Coalition on Older Women's Issues, a new and growing coalition of over 120 organizations and programs throughout the country joining together out of their mutual concern for the status and needs of older women. Participating in the coalition are organizations representing the interests of women and the aging, business and professional associations, unions, educational and religious programs, and local, State, and national policy groups.

The tremendous growth of this coalition in the past year reflects the increase in awareness and concern for this Nation's policies and their effects on older women.

I would like to commend Representative Oakar for her continued leadership and concern for the over 14 million older women in this country, and for providing this forum for discussion of the effects of the proposed changes in social security on this large and disadvantaged group.

Existing inadequacies and inequities toward women under social security as well as the effects on women of the proposed changes should be a major topic of discussion in the current social security refinancing debate, and yet, these issues have not been raised—not because they are unworthy of serious consideration but, I believe, because they present this Nation with a challenge so great, neither the administration nor the Congress has the courage to undertake it. Ignoring these issues will not make them disappear. We must confront the equity issues and move forward to resolve them before other major changes in the social security system are made.

I will limit my remarks today to a brief discussion of the continuing growth of older women as a unique population group, an overview of their current economic status and needs, and an analysis of the effects of the proposed changes in social security on the largest segment of older women, widows.

Older women as a significant demographic reality is an entirely new phenomenon. Less than a century ago, the life expectancy for women was only 48 years, and most females did not live to experience the last stages of life. A baby girl born today, however, can expect to live almost 80 years and a 65-year-old woman, 18 more years or until she is 83. Since 1900, the number of women over 65 has grown from 1.5 to 14.3 million. By the year 2000, older women will number 19 million, and 1 in every 14 Americans will be a woman over the age of 65.

As we have heard over and over today but it has to be the central theme of our meeting, older women comprise the fastest growing poverty group in the Nation.

The poverty rate for women over 65 is 60 percent higher than for their male peers. Unmarried older women represent 72 percent of this Nation's aged poor.

In 1979, the median annual income for women over 65 was only $3,759 compared to $6,430 for men. These figures become even more significant, however, when one considers that most older men are married and live on a family budget which includes the combined income of husband and wife. The average income for an older married couple was over $11,000 annually.

Social security benefits are the principal source of income for women over 60. In fact, for 60 percent of today's unmarried older

women—almost two-thirds of this group—social security benefits are their only source of income. The majority of these women are widows.

In December 1979, the average monthly social security benefit for women was $256 or a little over $3,000 per year. For women who elect to receive early benefits—approximately 70 percent—the average monthly amount was $238 or about $2,850 annually.

The Bureau of the Census established the poverty level at $3,470 for single women during that year; however, health expenditures alone averaged over $2,000 in 1978 for people over 65, almost four times the amount for younger adults.

Ms. OAKAR. You heard our discussion about the Consumer Price Index. I think sometimes we lose sight of the fact there are so many expenses that older people have that just escalate. Health care is one of them and the system is geared, even with Medicare, toward people going into hospitals without providing for what they actually need. I am glad you brought in that statistic.

Ms. KING. That is absolutely correct. Over 2,000. That statistic I have not seen broken down by sex. I think that is for all older people but I think medicare is particularly discriminatory toward women because they tend to have ongoing chronic ailments and as you have noted, the system is more geared toward paying for acute care which is primarily housing, food, transportation, legal aid, heat, and other energy costs are all areas of major expense for older women.

Previously, Federal assistance has been available to help subsidize these costs and supplement inadequate retirement benefits.

However, proposed cuts in these programs will further exacerbate older women's financial plight and limit their access to needed goods and services.

I would like to briefly discuss the effects of the proposed social security changes on older widowed women. More than half of all women over 65 are widows and by age 75, 70 percent have outlived their husbands.

In fact, widowed women represent almost one-third of the over-65 population. Their age, sex, and marital status combine to create a vulnerable status for them both socially and economically.

Although older widows represent diverse cultural, racial, and socioeconomic backgrounds, one common experience is shared. More than 90 percent spent a significant portion of their adult lives in traditional family roles as wives and mothers.

These roles were not consciously chosen after careful consideration of varied and acceptable options; rather they were the expected activities of responsible adult women of their generation.

Statistics from the Social Security Administration's retirement history study indicate that over 40 percent of aged widows elect to receive OASDI benefits at age 60 or 61.

I am assuming that people realize that widows are eligible for benefits at age 60 at an actuarially reduced amount, of these beneficiaries, 47 percent were not employed and 55 percent were living below poverty. Only 41 percent had received high school diplomas and 25 had work limitations.

Ms. OAKAR. May I ask you to summarize the rest. We will get all those statistics for the record that support the proposition that there is a real problem here.

Ms. KING. One point I would like to make in terms of the many statistics I used to paint a portrait of the widow who takes early retirement benefits is that these are generally women who do not have an adequate educational level nor employment history to go out and to get a job and wait until they are eligible for their full benefits at 65.

I agree with you, employment is a significant problem for older women and the barriers in terms of discrimination and the lack of jobs skills make it very difficult for women to support themselves and I feel the social security benefits which are already inadequate are essential and the data which I present I believe support that view.

I briefly go over the various proposed changes by the administration, the change in the benefit computation for those choosing early retirement and the widows of early retirees.

I talk about the minimum beneficiaries, a great majority of whom who are widowed women.

Ms. OAKAR. What I had intended to do with this panel so that all of you know, if I may, is go over each of the proposals of the administration and ask your comments on them.

Ms. KING. May I read my conclusion?

Ms. OAKAR. Sure.

Ms. KING. The proposed changes in the social security system only exacerbate the existing inadequacies and inequities for women.

In spite of the administration's statements that the social security system is in eminent danger of collapse, we have heard here today that there is time. Let's use that time to design and legislate a feasible plan that will establish equity for women under social security.

The National Coalition on Older Women's Issues supports Representative Oakar's comprehensive and visionary earnings-sharing legislation.

We must not allow the administration to railroad through major cuts in social security or other social programs until the issues discussed here today are resolved.

[The prepared statement of Ms. King follows:]

PREPARED STATEMENT OF NANCY KING, COORDINATOR, NATIONAL COALITION ON OLDER WOMEN'S ISSUES, AND, DIRECTOR, OLDER WOMEN'S PROGRAM, CENTER FOR WOMEN'S POLICY STUDIES

Madam Chair and members of the committee, I am testifying today on behalf of the National Coalition on Older Women's Issues, a new and growing coalition of over 120 organizations and programs throughout the country joining together out of their mutual concern for the status and needs of older women. Participating in the coalition are organizations representing the interests of women and the aging, business and professional associations, unions, educational and religious programs, and local, State, and national policy groups. The tremendous growth of this coalition in the past year reflects the increase in awareness and concern for this Nation's policies and their effects on older women.

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Existing inadequacies and inequities toward women under social security as well as the effects on women of the proposed changes should be a major topic of discussion in the current social security refinancing debate, and yet, these issues have not been raised—not because they are unworthy of serious consideration but, I believe, because they present this Nation with a challenge so great, neither the administration nor the Congress has the courage to undertake it. Ignoring these issues will not make them disappear. We must confront the equity issues and move forward to resolve them before other major changes in the social security system are made.

I will limit my remarks today to a brief discussion of the continuing growth of older women as a unique population group, an overview of their economic status and needs, and an analysis of the effects of the proposed changes in social security on the largest segment of older women, widows.

Older women as a significant demographic reality is an entirely new phenomenon. Less than a century ago, the life-expectancy for women was only 48 years and most females did not live to experience the last stages of life. A baby girl born today, however, can expect to live almost 80 years and a 65 year old woman, 18 more years or until she is 83. Since 1900, the number of women over 65 has grown from 1.5 to 14.3 million. By the year 2000, older women will number 19 million and one in every fourteen Americans will be a woman over the age of 65.

In their 1980 report, the National Advisory Council on Economic Opportunity noted that, "the feminization of poverty has become one of the most compelling social facts of the decade." The council projected that at the present rate of growth, "the poverty population would be comprised solely of women and their children by about the year 2000." Older women comprise the fastest-growing poverty group in the Nation. The poverty rate for women over 65 is 60 percent higher than for their male peers. Unmarried older women represent 72 percent of this Nation's aged poor.

In 1979, the medial annual income for women over 65 was only $3,759 compared to $6,430 for men. These figures become even more significant, however, when one considers that most older men are married and live on a family budget which includes the combined income of husband and wife. The average income for an older married couple was over $11,000 annually. Seventy percent of women over 65 are or will become widowed, surviving their spouse by an average of 18½ years. Two-thirds of these widows live alone, most at poverty or near poverty levels.

For some women, poverty in old age is a continuation of a lifetime of economic deprivation; however, for most it is a new and unexpected circumstance. Many factors combine to create this situation. These include: low labor market earnings which are reflected in low retirement benefits; part-time and discontinuous employment patterns among women who spent a significant portion of their adult lives fulfilling family obligations, barriers to employment such as limited education and job skills, illness and disability and the pervasive discrimination against women which increases with age; and increased longevity creating more time over which to spread limited resources. This situation is compounded by inflation, a factor which prejudices older women more than any other population group; and widowhood and divorce, and the loss of income which accompanies these transitions for most women. Outdated policies, including those which regulate the distribution of social security benefits fail to compensate women for their family responsibilities and unique labor force patterns and contributions.

Social security benefits are the principal source of income for women over 60. In fact, for 60 percent of today's unmarried older women (almost two-thirds of this group), social security benefits are their only source of income. The majority of these women are widows.

In December 1979, the average monthly social security benefit for women was $256 or a little over $3,000 per year. For women who elect to receive early benefits (approximately 70 percent), the average monthly amount was $238 or about $2,850 annually. The Bureau of the Census established the poverty level at $3,470 for single women during that year; however, health expenditures alone averaged over $2,000 in 1978 for people over 65, almost four times the amount for younger adults. Medicare covered only 44 percent of these costs; and medicaid, 13 percent.

Housing, food, transportation, legal aid, heat and other energy costs are all areas of major expense for older women. Previously, Federal assistance has been available to help subsidize these costs and supplement inadequate retirement benefits. However, proposed cuts in these programs will further exacerbate older women's financial plight and limit their access to needed goods and services.

I'd like to briefly discuss the effects of the proposed social security changes on older widowed women. More than half of all women over 65 are widows and by age 75, 70 percent have out-lived their husbands. In fact, widowed women represent

students' opportunities to secure adequate financing to continue their education beyond high school.

Before any major changes in social security are made there remains unanswered a basic question regarding our Nation's values and priorities which must be resolved. If we wish to preserve for women the option to be the primary caretakers of their own children and other family members, we must provide a basic level of financial security throughout life. It is no longer reasonable to expect women to fulfill, even temporarily, these responsibilities and roles knowing that the final result is likely to be poverty in their retirement years.

Ms. OAKAR. Thank you very much Nancy.

Joyce, I would like to hear from you and encourage you to summarize your remarks so we can get into more of an active discussion. I would like you to identify who you are representing. I think that is an interesting coalition.

STATEMENT OF JOYCE HAMLIN

Ms. HAMLIN. We could have gotten a lot of other names but time was short and a number of folks were out of town. My name is Joyce Hamlin, secretary for legislative affairs of the women's division of the board of global ministries of the United Methodist Church. I am speaking today before this task force for the women's division of the board of global ministries of the United Methodist Church, other groups joining in the testimony include United Presbyterian Church, USA, Washington office; office for church and society, the United Church of Christ.

Ms. OAKAR. There are some religious groups who do not believe in the cuts.

Ms. HAMLIN. I refuse to use a four-letter word but you are very right.

There are also a lot of biblical verses and I will quote one or two of them for you that are not being used by some of our other religious friends these days.

The Office of Governmental Affairs, the Lutheran Council in the USA; the National Council of Churches; the Unitarian Universalist Association, Washington office; the board of church and society, the United Methodist Church; and the National Assembly of Women Religious also join in the testimony. But the testimony that I will submit to the record and will just briefly highlight has been prepared by the interreligious community and its task force on public policy issues affecting women. One other thing we would like to submit for the record is a publication of Impact which is the interreligious legislation network and it is entitled "Economic Injustice for Women: Retirement Income," and it pulls together a number of tables, one Snoopy cartoon, but a lot of substantive material including biblical and theological perspective.

Ms. OAKAR. We would like to have that for the record. Make sure we get that.

[The material submitted by Ms. Hamlin follows:]

ECONOMIC JUSTICE FOR WOMEN: Retirement Income

More than 5 million women over the age of 65 live alone, and half that number are living their last years below the official poverty level. Most of these women have not always been poor. What happened to them is not inevitable but is rather the result of discrimination throughout their lives which strikes its cruelest blow at the end.

— Representative Patricia Schroeder (CO)

Recent statistics show that 72 percent of the elderly poor are widowed, divorced, or never-married women. The fact that many women are left destitute in their old age is a result of several factors, some of which affect men as well. But certain conditions are distinctive to women. The most important of these are: 1) the economic value society has assigned to women's work, both within and outside the home; and 2) the inadequacies and inequities of existing retirement programs (see Chart 1).

The purpose of this PREPARE is to alert the religious community to the changing and diverse economic and social roles of women and the ways in which our nation's retirement programs have neglected to respond to these changes. This PREPARE is designed to provide background for understanding the current debate and for measuring legislative initiatives.

PRINCIPLES FOR LEGISLATIVE REFORM

Legislative reforms which would improve the economic status of women, especially the elderly, should be guided, according to this Task Force on Public Policy Affecting Women, by three principles:

1. Any reform must address the fluid and diverse roles of women.
2. Any reform must provide *adequate* and *equitable* treatment for women in their retirement years.*
3. Systemic reform can include progressive interim measures as valid steps toward the achievement of economic security for women.

**Adequacy* means to assure sufficient resources for retirement or disability. *Equity* refers to equal treatment of various classes of beneficiaries. Costs for reform for one group must not be made to the disadvantage of another group. Both *adequacy* and *equity* are seen as complementary goals.

Chart I: 1976 Percent of Married Couples and Unmarried People Age 65 and Older at Poverty Income Level*

Married Couples		13%
Unmarried Men		15
Unmarried Women		72
Widowed	59%	
Divorced or Separated	6	
Never Married	7	
*Poverty Threshold, 1976:	Married Couples	$3,445
	Unmarried People	2,730

Source: US Dept. of HEW, *Social Security and the Changing Roles of Men and Women*; February 1979, table 2, p. 168

WOMEN: PRESENT AND FUTURE*

To understand the need for legislative reform for women in retirement it is necessary to look at the socio-economic status of women in American society today. Traditionally, women's status is first based on her role as childbearer dependent on her husband. Increasingly, women are expanding the traditional role of wife and mother to include more options.

Present Social Trends**

What are the present trends of the contemporary woman as she moves into the new decade?

- She will postpone becoming a wife. Young women are not abandoning marriage but are delaying it a few years. While some have lamented the death of marriage, statistics indicate that about 95 percent of today's American women are expected to marry at some time in their lives.
- A young woman will become a mother, but will limit the number of her children. With the exception of the decade following WWII, birthrates have declined since the turn of the century. While the number of families choosing to have no children is increasing, the bulk of the trend can be attributed to families having fewer children. According to the Bureau of the Census (1978), the expected number of surviving children per family has dropped from three or four in 1880 to two in recent years.
- A young woman will have her children within a shorter space of time. A woman will have her two children before she reaches her mid-30's as opposed to the traditional period stretching into her late 30's and early 40's.
- A woman will live longer. Over a forty-six year period (1930-1976), life expectancy has increased ten years for white women — from 68.8 years old to 78.7 years old — and eighteen years for black women — from 57.2 years old to 74.9 years old. This increased life expectancy coupled with a shorter childbearing period indicates that a woman may no longer expect to make childrearing her lifetime occupation.
- A woman will have a greater chance of being divorced. Divorce rates have grown from one in six marriages in 1940 to one in two marriages in 1975. This indicates that women are taking on the role of head of household in increasing numbers.
- A woman will probably work outside the home. The proportion of all women 16 years and over in the total labor force has increased from 32.7 percent in 1948 to 50.1 percent in 1978. The influx of women into the paid marketplace does not signify that lifetime careers are replacing homemaking as the traditional occupation for women. [Unlike most men, women have developed a variety of roles.] Lifetime homemakers have joined a growing number of working women who combine both roles.

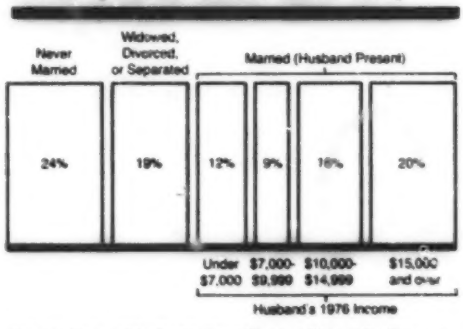
  In fact, the major segment of women moving into the work force is married women. In 1957 only 20 percent of all married women worked. By 1978 that figure had increased to 48 percent. These women are not suburbanites working for pin money. Most of them have joined the ranks of single, separated, widowed, or divorced women who work because of economic necessity.

Present Economic Trends

In 1977, 24 percent of women in the workforce were never married, 19 percent were widowed, divorced, or separated and 21 percent were married to husbands who earned less than $10,000. Thus at least 64 percent of the female labor force worked out of need. (See Chart II)

Although women are asserting themselves in the marketplace, they are still victims of low-paying, low-status jobs. According to a 1979 study by the Women's Bureau of the Labor Department, the wage differential between men and women hovers around 60 percent — a relatively constant figure since the turn of the century. The study attributed this wage differential to women's concentration in low-paying jobs, the large population of women in or near the entry level of the labor force and, to a certain extent, the lingering pockets of discrimination in hiring and promotional advancement of women. (See Chart III).

Chart II: Most Women Work Because of Economic Need (Women in the Labor Force, by Marital Status, March 1977)



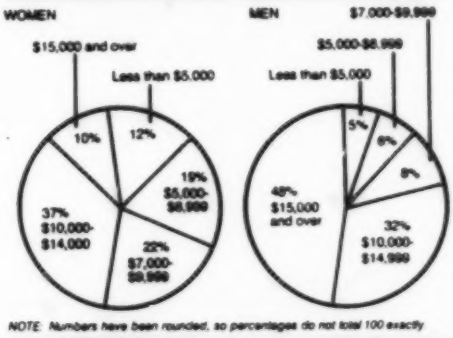
Source: Prepared by the Women's Bureau, Office of the Secretary, from data published by the Bureau of Labor Statistics, U.S. Department of Labor, August 1978

NOTE: Median earnings of full-time year-round workers 14 years of age and older. Numbers have been rounded, so percentages do not total 100 exactly.

* Statistical Data taken from:
US Dept. of Labor, Bureau of Labor Statistics
US Dept. of Commerce, Bureau of the Census

**Sociological Trends taken from: *The Subtle Revolution: Women at Work*, Ralph E. Smith, ed., The Urban Institute, Washington, D.C., 1979

Chart III: Earnings Distributions of Men and Women, 1977



NOTE: Numbers have been rounded, so percentages do not total 100 exactly

Source: U. S. Department of Commerce, Bureau of the Census

Women are still subject to occupational segregation. In 1977, over two-thirds of female workers were in stereotypically female jobs — clerical workers, service workers, teachers and nurses. In addition, women get less economic return from education and training than men do. (See Charts IV and V).

Although women are having smaller families and thus more working years, women entering the workforce after childbearing can expect to earn less than their male counterparts who, in the meantime, have been climbing the organizational ladder.

The influx of married women with small children into the workforce has been largely responsible for the increase of the part-time labor force. As it became acceptable for married mothers to work, they joined the job ranks as part-time workers — combining a desire or need to work for pay with home and family responsibilities.

In 1976, 40 percent of women, but only one percent of men, stated their reason for working part-time as "taking care of the home." These part-time jobs are generally low-paying with little chance of advancement and without job security or fringe benefits.

Chart IV: Percentage of These Groups That Are Female

Clerical Workers	79%	Sales Clerks, etc.	67%
Service Workers	62%	Nurses, etc.	83%
Educators, etc.	64%	Textile Workers, etc.	76%

Source: US Dept. of Labor, Bureau of Labor Statistics, 1977

Future Social Trends

Will these trends continue? According to a recent Congressional Research Service Study, the incremental increase in women's participation in the workforce will continue into the 1980's reaching 55 percent of working women in the workforce in 1990.

Department of Commerce predictions indicate that the average number of children per family will remain at two. Working women with preschool children will become the fastest growing segment of the female workforce. In 1990 an estimated 3.4 million mothers with children under six will be working — a 65 percent increase over 1977 levels.

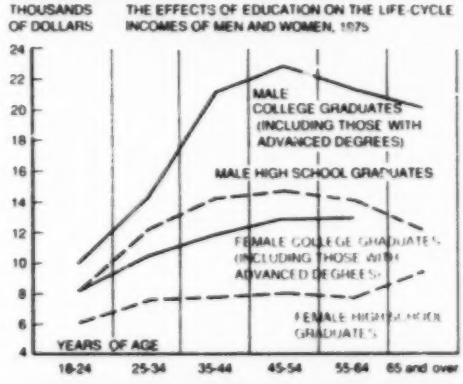
The rate of marriage will remain relatively constant. The divorce rates, while high, are expected to range from 30-40% of marriages now being formed. Women's roles as wife and mother, while remaining prominent, will increasingly be combined with that of working in the paid workforce.

There is little evidence that these trends will impact women's occupational status and wages. There is some indication that younger women are moving away from traditionally female occupations. Attitudinal changes are slow, however, and occupational segregation will remain widespread.

Statistics on the wage differential between men and women give little encouragement that the gap will close by the 1990's. At present women earn 59¢ to the $1.00 earned by men for full time comparable work. Evidence indicates that the ratio will fluctuate slightly around 60 percent of the earnings of men into the 1990's.

Women will probably be combining all three roles of wife, mother, and worker to accommodate changing

Chart V: Occupations, Earnings, and Career Opportunities



SOURCE: U.S. Department of Commerce, Bureau of the Census

NOTE: Median incomes of full-time, year-round workers, 1975

attitudes and values of our society. Despite these changing roles, economic systems in the US remain based on traditional role models. Such is the case for present retirement benefit systems.

WOMEN IN POVERTY

While the majority of women work because of economic necessity, special attention needs to be given to women in poverty. According to a US Commission on Civil Rights report (July 1979) the designation "women in poverty" includes women of all races and ethnicities, ranging in years from mid-teens to old age. Frequently, a woman is the sole supporter of her children or of aged relatives. Contrary to some stereotypes, women in poverty are not only those on the rolls of welfare agencies, but also in the workforce with incomes below the poverty level, concentrated in low-skilled, low-paid, traditionally female job occupations. Many women whose only incomes are from social security, private pensions, or annuities also live in poverty. The 1975 census revealed that:

- Approximately 20 percent of female-headed families (those without husbands) which receive wages or salaries have incomes below the poverty level.
- Nineteen percent of female-headed families with income from private pensions, annuities, or alimony are in poverty.
- Women also represent three-fourths of all persons receiving public assistance and welfare payments — and of these women, more than half are living in poverty.

An October 1980 report, "Critical Choices for the 80's" by the National Advisory Council on Economic Opportunity cited that ". . . the 'feminization of poverty' has become one of the most compelling social facts of the decade. Almost one female-headed family in three is poor; about one in 18 families headed by a man is poor." The Council argued that at the present rate "the poverty population would be composed solely of women and their children by about the year 2000."

HISTORICAL OVERVIEW OF PENSION BENEFITS IN THE US

Early pension plans in the US were based on support of men who served in the armed forces. In 1636 the Pilgrims of Plymouth Colony provided support for soldiers maimed in the line of duty. Revolutionary War soldiers were covered by a 1789 law which provided for a one-year pension. Throughout the first 150 years of its history, the US government gradually increased its pension coverage for the armed forces.

As the 20th Century began, only a few private companies and government agencies had pension programs. These included some state and local government programs for veterans of various wars. By 1920, federal employees were covered by the Civil Service retirement system, enacted chiefly to move workers from the workforce into retirement, thereby creating more jobs. However, until Social Security was enacted in the mid-1930's, relatively few workers were covered by pension plans.

From the beginning of US pension systems, women's participation was and continues to be primarily that of a dependent.

Pension benefits for women as workers were indirectly impacted by civil rights legislation of the 1960's and 1970's — the Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, the Equal Opportunity Act of 1972, and subsequent amendments. These statutes provided the basis for judicial decisions in the 1970's which established the principle of equal treatment on jobs related to occupation, pay and benefits. While progress at the level of federal legislation is significant, income for women continues to remain substantially lower as compared to men since 1947. And, despite passage of federal laws, the Supreme Court has repeatedly found no basis in the Fourteenth Amendment for ruling against sex discrimination. In the 1978 *Regents of the University of California v. Bakke* decision dealing with affirmative action programs, Justice Lewis E. Powell, in delivering the opinion of the Court, said of sex as a class discrimination, "The Court has never viewed such classification as inherently suspect or as comparable to racial or ethnic classifications."

One tenet of the proposed Equal Rights Amendment (ERA) would be to help assure enforcement of equal pay for equal work. While the ERA would ultimately increase women's retirement benefits, it would not address the inherent inadequacies of the retirement benefit systems, a system based on benefits coming from worker contributions.

For those women whose sole economic contribution has been as homemaker and mother, pension benefits continue to be available only through spouse-related employment. In most instances, these benefits do not adequately or equitably reflect the real investment women make to the economic security of the family unit.

STRUCTURE OF RETIREMENT INCOME SECURITY PROGRAMS

The United States has a variety of retirement systems, both public and private, which provide various levels of economic security in old age.

Social Security, (SS) the largest retirement program, is based on employment. It includes roughly 90 percent of all employees. Benefits from this program are financed by taxes on earnings from covered employment. A person must work at least forty quarters to receive benefits from the Social Security system. Eligibility for benefits is based on contributions to the Social Security system and benefits received are related

BIBLICAL AND THEOLOGICAL PERSPECTIVES

How does the Bible speak to the issue of economic justice for women, especially the elderly poor, and to the issue of women as persons? A people of faith need only turn to the biblical tradition of human liberation that is extended to all, both female and male. In the prophetic-messianic tradition the side of the disadvantaged is taken. God vindicates the oppressed and judges the existing social order and its hierarchies of power—religious, economic and social. The biblical tradition is one of social criticism and the expression of hope for a just society on earth.

Concern for the poor proceeds not simply from a love or compassion for them in their suffering, but is rooted in the very precept of justice in the Hebrew Scriptures. Commitment to the poor and oppressed is at the heart of the Judeo-Christian concept of justice. God, through Mosaic law and prophetic cries, seeks justice for the poor (Deut. 10:18, Is. 11:4). In the preaching of Isaiah, restated by Jesus, the vision of the "acceptable year of the Lord" is defined as "good news to the poor . . . setting at liberty those who are oppressed." (Is. 61:1-2; Lk. 4:18-19). Following the example of Jesus' outreach to the poor, the early Christian communities saw to the needs of the widows, the elderly and those lacking the necessities of life.

A task of a Scripture-based religious community is to recognize that all persons share in an equal claim to the bounties of God's creation and an equal right to the necessities of life. To be just is to engage actively for fulfillment of these rights for all. The marginal groups in society, whether based on sex, race or economics, become the scale on which the justice of the whole society is weighed. When individual rights to the common resources are denied, the community suffers and the social fabric is weakened.

Woman as Person

The very question of the dignity and worth of women has led to a critique of all institutions, including religion. In the search and struggle for truth, Biblical scholars and theologians recognize the profound nature of the women's question when addressed to the traditional patriarchal religions such as Judaism and Christianity.

Biblical scholars are re-examining the dignity and roles of women in the Bible. Their purpose is to separate out the culturally-based status of women in the male-dominated society of biblical times. Oppression of women, within this context, is pointed out in order to change it in today's society and to allow the Scriptures to speak to women and men in today's world. The task is to discover *why* our predecessors lived by faith, not merely to imitate *how*. The challenge to change customs and attitudes is a call to syngagogue and church alike to the traditions of equality and a genuinely just community.

The role of women in the Bible is defined by the prevailing patriarchal form of family life. Her principle functions were performed in her roles as wife and mother. Socially, economically and legally her position was inferior; she was owned by and subordinated to her father or husband. Individual economic independence was rare since her economic value was measured in terms of her contribution to the family unit. While the word of God expressed the spirit of equality, the biblical women's functions and worth were generally conditioned by a basically patriarchal social structure.

Exceptions to this pattern cited from the Hebrew Scriptures are such women as Miriam, Deborah, and Esther, to mention a few. The Christian Scriptures reveal Jesus breaking cultural tradition in his concern for the needs of women — Martha, Mary Magdalene, and Samaritan women. As recorded in Acts, women hold leadership roles and are the first worshippers, converts and missionaries.

Religious Tradition

Both as a people of faith and as advocates for justice for women, we can acknowledge that most of the inherited biblical and theological interpretation received from a male system of tradition has been biased in its tendencies either to sanction sexism or to ignore it.

The inherited cultural tradition permeates the Bible and serves as the basis for sexual and family roles of women. Religions consistently place the ideal woman of motherhood and family dedication on a pedestal while continuing to formulate views and prescribe rituals which perpetuate and often intensify the oppression of women.

In Jewish tradition and Christian churches, both East and West, the struggle continues to achieve equal status and leadership possibilities for women. Silence, submissiveness and service to husband and family are generally looked upon as female virtues. Basic rights to work, education, financial autonomy, and full participation in ministry are restricted, for the most part, by institutionalized religion's acceptance of a women's oppressed role in society.

Religion, of all institutions, should affirm the liberation of the people of God. Jewish and Christian traditions, while attempting to be faithful to basic tenets of faith and heritage, are experiencing tension as they try to change attitudes and practices to reflect this legitimate liberation. Women who love their synagogue and church play a major role in this struggle for mutuality, for truth.

The expression of religious faith by confrontation with the inequities which destroy the social fabric of society is not a new phenomenon. However, Biblical and traditional statements on justice need not only new interpretation but new application. Women, and how they are treated, are integral to the good of society. The call to see this quest for justice for women as integral to faith, needs to be heard by all who claim the Scriptures as either Bible or Testament.

to contribution levels. The federal government sets the type and amounts of protection available under Social Security. It is usually assumed that Social Security benefits will provide an income base in retirement replacing between 30 and 50 percent of pre-retirement earnings.

In 1980, an estimated 35 million Social Security beneficiaries will receive about $120 billion in benefits. Fifty-two percent of all beneficiaries will be women, either as worker or dependent. The average monthly Social Security benefit for all women is $230 or $2760 per year. For all men, the average monthly benefit is $339 or $4068 per year. Sixty percent of unmarried women (widowed, divorced, separated or never married) over age 65 have incomes only from Social Security. Of those women, 48 percent fall below the poverty level.*

*Within the Social Security System the federal government guarantees bare subsistence to everyone over age 65, the blind or disabled through the Supplemental Security Income (SSI) program. Eligibility is based on need and has no relationship to the recipient's contributions to the system. Currently, SSI pays $2500 annually to a single person with no other income. Sixty-six percent of all SSI beneficiaries are women; women comprise 72 percent of aged SSI recipients.

A second retirement system is **public pensions**. Federal employees and some state and local employees are not covered under Social Security. They receive protection in retirement through public pension plans.

A third system of US retirement plans includes **private pensions** as well as individual savings and investments. These sources of income supplement the base floor provided by benefits from Social Security and determine the adequacy of income for retired individuals. Women workers, more often than men, do not qualify for benefits under private pensions because either their occupation is one traditionally not covered by pension plans or credits toward vesting are forfeited due to greater job mobility. Currently, only 21 percent of all retiring women workers receive private pension benefits. The average private pension benefit for a woman worker is $970 per year compared to $2080 for her male counterpart.

What follows is an explanation and commentary for change of the federally-regulated retirement systems of Social Security, federal and private pensions as they affect women today. The major portion of this PREPARE will concentrate on the Social Security System for two reasons: 1) more women are affected by this system, and 2) many of the same issues affecting women on Social Security apply as well to pension reform.

SOCIAL SECURITY

The Social Security program was established in 1935 to provide a supplemental protection in retirement for workers in covered employment. In 1939, the program was amended to provide benefits to workers' wives and widows as dependents. The system, which protected women as dependents, was predicated on a tradition of lifelong marriages where women worked within the home and men provided economic support. Although the roles of women in the home and in the work place have changed dramatically since the 1930's, the Social Security system has remained unchanged.

One and Two-Earner Couples. In general, two-earner couples receive smaller benefits in relation to the SS taxes they pay than do one-earner couples. This is due to the design of the actuary tables which determine the amount of the dependent spouse's benefit. The greatest inequity in this regard occurs when the earnings of each spouse are comparable. EXAMPLE: A one-earner couple each age 62 in 1980 with an average indexed monthly earnings (AIME) of $1000 would have a benefit of $648. This equals one worker's benefit of $432 plus a dependent spouse's benefit of $216. In the case of a two-earner couple, if each spouse earned one-half of the $1000 AIME, the benefit would be $544 because each spouse of the two-earner couple would receive a worker's benefit of $272.

Women who are low-earning members of a two-earner couple frequently find that the benefits they would have received as a dependent spouse are often higher than the actual benefits based on their own work record. (They cannot add benefits earned as a worker to the benefits received as a dependent.)

Married Women Workers. Married women workers receive substantially lower benefits than men workers. This occurs because: 1) the average wages for women are lower than those for men, and 2) the time married women workers spend out of the paid labor force or work part-time to raise children and perform homemaking duties is not counted as "work" by the labor market for the purpose of computing SS benefits. Benefits are computed by averaging earnings from the labor market. Therefore, years spent outside of the paid labor force is considered as "0" earnings. Thus, women workers who leave the labor force to raise children and perform homemaking duties receive a reduced final retirement benefit.

Single Workers. While women and men are treated equally in determining benefits, women receive less because of their traditionally lower wages. Today, men receive an average monthly retirement income of $339 while a woman receives only $230.

Inequality is claimed by the single worker in contrast to the one-earner married couple. The latter receives a supplement to the worker's benefit — the dependent spouse's benefit — while contributing no more to the system than the single worker with like earnings.

Widows. One out of three *aged widows* lives in poverty and a majority of elderly women depend on SS as their only source of income (see Chart VI). As in the case of one- and two-earner couples, the survivor of a two-earner couple receives a lower benefit than the survivor of a one-earner couple with comparable earnings. EXAMPLE: With an AIME of $1000, the aged survivor's benefit for a one-earner couple is $432. The benefit for the survivor of a two-earner couple drops to $272 (a $160 loss) if each spouse had an AIME of $500 for a total of $1000.

A *widowed homemaker* is eligible for 100 percent of her husband's benefits only if she is age 65 or over. The benefit is reduced if taken before age 65 and the reduction remains with her during her lifetime. These actuarial reductions are equal to 17.1 percent if the benefit is taken at age 62; 28.5 percent if taken at age 60. Widows younger than age 60 cannot receive SS benefits unless they are disabled or have children under age 18 in their care and entitled to benefits. Thus because of this "widow's gap" many women homemakers who are widowed in middle age are confronted with no SS protection at a time when they face serious difficulties entering or reentering the labor force.

Divorced. Inadequate benefits for divorced women are especially pressing since the marriages of one out of three women age 26-40 are projected to end in divorce. A divorced woman is not entitled to SS benefits from her former husband if the marriage lasted less than ten years. This regulation works to the disadvantage of women since it is during the initial ten years of marriage that a woman is most likely to leave the labor force to have children. Further, the divorced wife's benefit of 50 percent of her husband's benefit is often

Chart VI: Percent of People age 65 and Older Receiving Pensions From Major Sources, Median Total Income, and Poverty Rates, 1976

Types of Income	Couples			Unmarried Women			Unmarried Men		
	Percent of Units	Median Total Income	Percent Below Poverty Level	Percent of Units	Median Total Income	Percent Below Poverty Level	Percent of Units	Median Total Income	Percent Below Poverty Level
RECEIVING SOCIAL SECURITY	**90%**	**$ 7,590**	**8%**	**68%**	**$3,280**	**36%**	**87%**	**$3,820**	**26%**
And earnings, no pension	23%	8,315	7%	10%	4,770	16%	13%	4,760	16%
And pension, no earnings	27%	8,810	1%	16%	5,230	7%	25%	5,720	2%
Both earnings and pensions	11%	12,500	1%	2%	8,250	0%	3%	[1]	[1]
Neither pensions nor earnings	29%	5,040	19%	60%	2,810	48%	46%	2,900	43%
NOT RECEIVING SOCIAL SECURITY	**10%**	**13,850**	**12%**	**12%**	**2,670**	**54%**	**13%**	**4,760**	**34%**
Earnings, not pension	6%	17,120	5%	2%	6,600	27%	4%	[1]	[1]
Pension no earnings	2%	9,090	3%	2%	4,670	20%	4%		[1]
Both earnings and pension	1%	17,320	3%	1%	[1]	[1]	1%	[1]	[1]
Neither pensions nor earnings	1%	[1]	[1]	6%	1,690	84%	4%	[1]	[1]

[1]Too few cases

U.S. Dept. of Health, Education and Welfare, 1979

inadequate since the spouse's benefit was intended as a supplement for the married couple, and not as the sole basis of support. A divorced homemaker cannot receive a divorced spouse's benefit based on her former husband's work until he reaches age 62 and retires, even though she may be over age 62. Further, if she is divorced late in life and can only work to support herself for a limited number of years, she has difficulty building up SS benefits in her own rights. And again, her SS benefit may be low because of the time spent working in the home during the marriage — work which is not covered in its own right under SS.

Disabled. A *disabled widow* is ineligible for any SS dependent's benefits unless she is age 50 or over. If she receives a dependent's benefit at age 50, it is equal to only 50 percent of the deceased worker's benefit. The benefit is equal to 71.5 percent of the deceased worker's benefit if taken at age 60. In 1978, the average monthly SS benefit to dependent disabled widows was $166 per month.

A *disabled worker* must have worked in covered employment for five out of the ten years preceeding disability. It is usually the case that married women workers leave the labor force for longer than five years in order to raise children and perform other homemaking duties. Therefore, they are more adversely affected by the five-year test than are their male counterparts.

Homemakers who become disabled are ineligible for SS benefits even though the loss of their services usually means extra costs for the family in addition to the extra expenses associated with disability. This situation is particularly critical to divorced or separated homemakers, who, in many instances, are not supported by their husbands or former husbands.

Legislative Proposals for Change

Two major concerns, then, emerge when discussing Social Security and its treatment of women. These relate to the *inadequacy* and the *inequity* of the system itself.

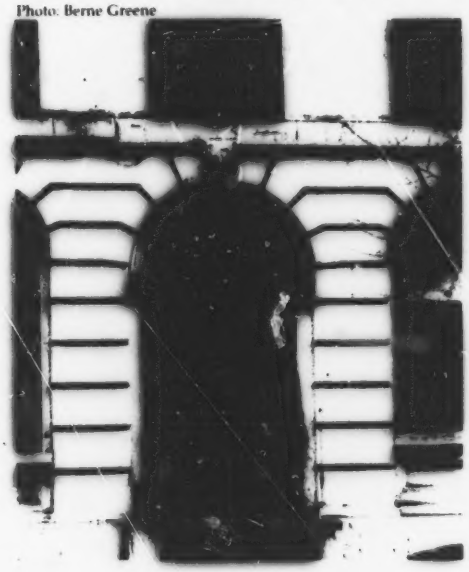
Since many of the proposed reforms require fundamental changes in the SS program, extensive public debate must occur prior to any final change. Most of the options for change are discussed in the 1979 report of the then Department of Health, Education and Welfare, "Social Security and the Changing Roles of Men and Women," as well as the 1979 report of the President's Advisory Council on Social Security. Following are several of the most frequently-discussed proposals.

• *Earnings Sharing*. Under this plan, the total annual earnings of a married couple are divided equally between the spouses for each year of marriage. Each marriage partner receives Social Security protection in his or her own right. With earnings sharing, a person's SS protection would be based on earnings when unmarried and on one-half of the couple's total earnings when married. For the purpose of computing benefits, earnings would be divided at divorce or when one or the other spouse reaches the age of 62. Surviving spouses would inherit 80% of the total annual earnings of the couple during marriage. This proposal is based on the premise that marriage is an economic as well as a social and spiritual partnership. This plan could be mandatory or elective (optional).

• *Double-Decker*. This plan would establish two tiers or levels of benefits. Tier I would provide survivors, retirement, and disability benefits to all residents of the United States. Tier II benefits, which supplement Tier I, would be payable to all workers in covered employment. The Tier I benefit would be set at $122 per month. Tier II benefits would equal 30% of a worker's AIME. Like earnings sharing, double-decker would include earnings sharing at divorce, inheritance of spouse's credits, and certain adjustment benefits for widows.

• *Homemaker's Credits*. This plan gives economic recognition of the value of homemaker services. This approach would allow homemakers to receive SS credits based on the work they do in the home. Alternatives for financing homemaker credits include payments of SS taxes by the homemaker, payment through general revenue funds (as opposed to SS trust funds), or increasing taxes of paid workers. Like other suggested reforms, this plan could be optional.

Photo: Berne Greene



• *Individually-Based Benefits*. This system bases retirement and disability benefits solely on the individual's earnings record in covered employment. All dependent's and survivor's benefits would be eliminated. Accompanying this approach must be the parallel enactment of public policy which encourages women to enter the labor force and men to take a sharing role in child rearing and other home-related activities.

Commentary

None of the proposed options perfectly addresses the adequacy and equity issues raised with regard to the treatment of women under Social Security. All options have been proposed as vehicles for discussion in the extensive debate which must occur prior to significant public policy change. While it is probable that interim steps moving toward comprehensive reform will be enacted first, support needs to be given to those measures which *add* to current benefits, especially those which address those women living at or below poverty level.

Comprehensive reform must embody the following provisions.

—It must provide equal treatment of women homemakers and women workers.
—It must recognize the economic value of homemaking and child rearing.
—It must address the diverse and fluid roles of women during their lifetime.
—It must provide adequate economic security for the elderly, particularly women.
—It must be funded at sufficient levels so that benefits are not shifted from one type of beneficiary to another.

Financing of Social Security

No discussion of the Social Security program can be complete until operating costs of the system are considered. SS provides not only monthly cash benefits to covered workers, but it also provides health care and disability coverage. The entire system consists of three trust funds: Old Age and Survivors Insurance (OASI), the Disability Insurance, and the Hospital Insurance known as Medicare. At present, money may not be transferred from one trust fund to another (see Chart VII).

Despite the mid-70's "fiscal crisis" of the system, the President's Advisory Council on Social Security declared in its fifth annual report in late 1979 that the system is alive and well and should continue so for the next 50 years. The Council concluded that taxes already in place, particularly the increases enacted in 1977, will provide that security. However, more recent findings and reports indicate that Social Security is and will continue to be in a crisis situation.

The recent crisis was precipitated by the maturing of the system—that is, during its infancy the system had many more workers to care for retirees than it had retirees.

During the last two decades, two simultaneous demographic changes took place. First, the bulk of the earlier participants moved into retirement and are living longer; and second, the decreasing rate of population growth resulted in proportionately fewer workers entering the job market. Therefore, the expected new workers were not available to fund the system. For instance, in 1950 for each beneficiary there were 14 taxpayers; by 1970, this had dropped to four. In addition to this "maturing" situation, economic conditions caused benefits to increase at a faster rate, revenues to the system to fall behind as unemployment increased, and disability claims to be filed at an unexpected higher rate.

The need for reform in some areas may be so pressing as to require increased income to the trust funds. However, cost of reform or steps toward reform must be equitably shared. Reform for one group must not be made to the disadvantage of another group, especially the already poor.

Among the numerous proposals under discussion for financing security and reform for the trust funds are the following:

- Shift financing all or part of Medicare from payroll taxes (as presently done) to personal and corporation taxes or general revenues. This would allow the SS system to remain sound for the next 75 years, under current rates of taxation, according to the Advisory Council.
- Tax one-half of benefits paid to recipients. This is based on the fact that the employer's contribution is not taxed at time of earning.
- Provide a tax credit on individual income taxes for increased SS taxes.
- Increase SS payroll taxes. However, this hits low-income people proportionately harder than high income people. The next increase, due in January 1981, will raise this tax from 6.13 percent to 6.65 percent and to 6.70 in 1982 for workers. In addition, the amount of individual earnings on which the tax is based, called the "wage base," is also rising. In 1937 the wage base was $3000; in 1980 it is $25,900; and it is scheduled to rise to $29,700 in 1981.
- Permit interfund borrowing from one trust fund to another to care for temporary fiscal crises.
- Reduce benefits, including spouse benefits.
- Raise the retirement age.
- Limit the size of the automatic benefit increase.
- Place federal employees (now under US Civil Service retirement systems) under the Social Security System.

FEDERAL PENSIONS

Ninety-seven percent of federal employees are covered by one of two retirement programs: the civil service retirement system and the uniformed services retirement system. The remainder are covered by ten other retirement programs. It should be noted again that Federal employees are not part of the Social Security System. The following discussion focuses on the issues under the civil service retirement system which impact women. Some of the same issues of disadvantage to women are also found in other Federal retirement plans as well as military and foreign service pension systems.

Civil Service Retirement System

Vesting Requirement. In order to acquire a vested right to the pension annuity, a federal worker must have served five years as a federal civilian employee. The five-year limitation has a negative effect on women since a disproportionate share of female civil service workers leave government service before serving five years.

Benefit Formula. The current formula for benefits yields higher benefits for longer-term and higher-paid workers. Thus male workers, who have higher earnings and a longer attachment to the work force, tend to receive greater retirement benefits and more benefits per dollars contributed than women receive.

Social Security Offset Provisions. In 1977 Congress enacted legislation which reduces social security spouse benefits by one dollar for every dollar the worker receives from a public pension — the so-called "public pension offset test." Therefore, government workers who have acquired some social security protection during their lifetime lose that protection as a result of their participation in a public pension plan. This provision is especially harmful to spouses of government workers since the civil service pension program — which is not a social insurance pension program — does not provide dependent's or divorced spouse's benefits.

Survivor Benefits. Under current law, a federal employee (foreign service employee excepted) has the option not to include the spouse in survivor benefits and can do so without consulting the spouse. Once the decision not to elect survivor benefits is made, it cannot be reversed. Federal employees often elect not to cover their survivors because to do so would automatically reduce the pension benefits. In addition, survivor benefits are terminated if the widow or widower of a worker remarries prior to age 60.

Divorced and Surviving Divorced Spouses. The civil service retirement program prohibits the divorced spouse or surviving divorced spouse of a federal worker from receiving pension benefits no matter how long the marriage lasted.

Legislative Proposals for Change

- *Universal Coverage Under Social Security.* Energetic efforts have been made to extend Social Security protection to federal workers and to repeal the offset provision. A federally-mandated study directed by the Department of Health, Education and Welfare released in March 1980, suggests such a proposal would put Social Security on a sounder financial basis. However, serious difficulties to be overcome would include the questionable constitutionality of the federal government levying taxes on state and local governments and the blending of Social Security with existing public employee retirement plans. Universal Social Security would grant automatic protection to the spouses and children of federal workers and to divorced

spouses married at least ten years, a provision not incouded under civil service retirement programs.

• *Survivor Benefits.* Legislation was introduced into the 96th Congress to make survivor benefits mandatory unless both spouses agree otherwise in writing, and to allow retirees a second chance to elect survivor benefits if they had opted not to cover their spouses. However, only the bill for Foreign Service personnel became law.

• *Divorced Spouse Benefits.* Under consideration in the 96th Congress were proposals to provide former spouses of federal workers, married at least ten years, a share of retirement and survivor benefits. The amount is based on the number of years of marriage that overlap with credited years of service toward retirement.

Commentary

Any reform of the federal pension system which adequately and equitably addresses the needs of women must contain the following provisions:

— formulas for computing benefits and vesting requirements which are responsive to the fluid roles and responsibilities of women in contemporary society;

— adequate protection for surviving spouses of civil service, military, and foreign service employees; and

— adequate protection for divorced and surviving divorced spouses of civil service, military, and foreign service employees.

PRIVATE PENSIONS

Private pension plans provide retirement income for workers employed in the private sector. Employers are not required by law to have private pension plans for their employees. However, if they do, employers must comply with the standards set forth in the Employment Retirement Income Security Act of 1974 (ERISA). (Certain plans are exempt from ERISA.) Although ERISA improved the protections provided by private pension plans, additional reforms are needed in order to address the needs of women. Private pension plan issues of concern to women include:

Coverage of Women Workers. Only one-fifth of retiring women workers in the private sector receive benefits from private pensions. The average private pension benefit for women is $970 per year compared to $2080 for men. The explanation for the lower coverage and benefits is linked to the heavy concentration of women in low-paying, low-status jobs in service industries, offices, retail stores and factories — the so-called "girl ghetto" — and its offering little or no pension coverage.

Plan Participation. Private pension plans are not required to cover employees until they reach the age of 25 and have at least one year of service. ERISA defines one year of service as a 12-month period during which the employee worked at least 1000 hours. These participation requirements are especially harmful to women who have their highest labor force participation rates between the ages of 20-24 years old and who, because of family responsibilities, frequently work in part-time employment.

Vesting. With regard to benefits attributable to employer contributions, most private pension plans provide employees with a full vested (or inalienable) right to share in a pension fund after 10 years of covered service — so-called "cliff vesting." These vesting requirements are of special concern to women who, because of child care and other family-related responsibilities, do not work long enough to acquire a vested interest in their employer's pension fund. During the 1970's, the median length of a job tenure for women working in private employment was five years.

Portability. Private pension benefits cannot be carried from one job in the private sector to another. Therefore, women who leave their jobs before they gain a vested right to their pension credits forfeit all accrued benefits.

Joint and Survivor Benefits. ERISA mandated that private pension plans which offer benefits in the form of an annuity (this includes most plans) provide workers with a "joint and survivor" annuity at normal retirement age (65 years). However, workers have the option to waive survivor's benefits and need not inform their spouses of the decision. Again, to elect survivor coverage means lower retirement benefits. Further, some private pension plans do not provide pension benefits to their workers before normal retirement age. Therefore, if the worker, even though vested, dies before the age 65, the surviving spouse is not covered. If a pension plan offers early retirement benefits, ERISA guidelines allow pension plans to withhold providing the joint and survivor annuity until the employee is within 10 years of normal retirement age or reaches early retirement age. Therefore, if a worker under a plan with a normal retirement age of 65 is allowed to retire at age 50 and dies before age 55, his survivor may receive nothing. Also, if the employee dies within two years of selection of survivor's benefits, the selection may be disregarded, except in the case of accidental death.

Sex-Based Acturial Tables. Certain private pension plans set their contributions or benefits on the basis of sex-based tables. Therefore, since women are expected to live longer than men, they are required to contribute more to their pension or receive smaller benefits. The use of these tables has been successfully challenged in the courts on the basis of sex discrimination, although the Supreme Court has not definitively ruled on the issue. The Supreme Court in *Los Angeles Dep. of Power & Water v. Manhart* ruled out unequal contributions based on sex; lower court decisions in *Equal Employment Opportunity Commission v. Colby College Teachers Insurance & Annuity Association, et al.*, and *Spirit v. TIAA-CREF and Long Island University* ruled out unequal annuities.

Divorced Spouses. ERISA generally prohibits a worker from transferring his or her pension benefits to another beneficiary. The question has been raised whether this prohibition permits a plan to refuse to

comply with a State court order directing payment of all or part of a worker's pension benefit to a divorced spouse for alimony or child support

Legislative Proposals for Change

Proposed amendments to ERISA which address the concerns of women include:

- *Division of Pension Benefits upon Divorce.* Legislation was introduced in the 96th Congress to require private pension plans to comply with State court orders which divide pension benefits in community property settlements or attach pension benefits for the purposes of alimony or child support.
- *Wider Protection for Survivors.* Legislation was introduced in the 96th Congress to require that all pension plans provide a benefit for a surviving spouse of the covered worker who died after 10 years of vesting service, unless an election to the contrary had been made and subsequently not revoked by the participant prior to death. Another proposal provides that the joint and survivor benefit is automatically elected unless there is a written agreement to the contrary signed by both parties.
- *Favorable Tax Treatment for Employee Contributions to Pension Plans.* It has been suggested that ERISA be amended to allow employees who contribute to their pension plans to take a tax deduction for those contributions. Such a change would benefit women who frequently change employment and never work long enough in one job to vest in a private plan retirement benefit.

Commentary

In order to adequately and equitably address the concerns of women, comprehensive reform of the private pension system must accomplish the following:

- mandate private coverage of all classes of workers in the private sector;
- provide survivor coverage or the requirement that both spouses sign a waiver of survivor benefits;
- allow workers to carry their pension benefits as they move from one job to another;
- provide for the splitting of pension benefits upon divorce; and
- allow breaks in service for childbearing without the loss of pension credits.

PLAN OF ACTION

Major changes in any national social policy require:

- organized and varied national citizen coalitions;
- support by a vast majority of the nation's citizens;
- passage of legislation in both the House and the Senate.

In planning for change, it is important to build a broad coalition of those who have dealt with reform in these areas. One such group is organized labor, which has a history of involvement, including the United Auto Workers, the American Federation of Labor/Congress of Industrial Organizations (AFL-CIO) and the Communication Workers of America.

Systemic change requiring fundamental rethinking of the Social Security system and pension reform, consistent with principles inherent in the Judeo-Christian heritage, must first take into account those in most need who lack what is adequate — women in poverty and the elderly. Attention on an equitable basis needs to be focused on the homemaker, the working wife, the divorced, the widowed and the single worker.

Change involves attitudes. Economic attitudes toward women include: a) recognition of the homemaker and thereby marriage as a joint economic partnership, and b) equal pay for equal work. Social attitudes include: a) acceptance of the diverse roles women play in contemporary society, and b) admitting the need for more shared household responsibilities with the spouse of the working homemaker.

Obstacles to change will come from those who prefer to keep women in stereotyped roles and in a dependency posture that often accompanies certain roles. Some women prefer, out of fear or convenience, special deference rather than equality. An indifferent citizenry or an attitude that the issues are too complex and should be left to the 'experts' will inhibit change. One of the greatest economic barriers to change from government officials and pension companies is the belief that the systems could never afford equality for women. The challenge is great.

Advocacy for Change

Advocacy for sound reform in the Social Security System and pension plan reform will more than likely occur in incremental stages. These phases of change may be interlocked with issues such as:

- education and job training programs for the advancement of women in the labor market,
- job proposals, shared jobs,
- day care centers,
- part-time and flexi-time work patterns,
- the growing elderly population

Legislative Outlook

The data and reports are being assessed. The 1977 Congressional-mandated study of dependency and sex discrimination in the Social Security System was reported in 1979 by the Department of Health, Education and Welfare (now the Department of Health and Human Services — HHS), *Social Security and the Changing Roles of Men and Women*. The President's Advisory Council on Social Security, part of the Social Security Administration, has reported its findings and recommendations.

Contributing to the debate is the report of the independent National Commission on Social Security to be published soon.

Women's groups have testified before Congress and in regional hearings, conferences are being held bringing together policy-makers and researchers; interdisciplinary ventures — economics, political science, women's studies, law, aging — at universities are examining alternatives for restructuring the Social Security system.

What to Do

A concerted effort on many levels is needed for the task of advocacy. Some suggestions are:

1. synagogue and church discussion/action groups, seminars and conferences;

2 contacting legislators for reform proposals under consideration and encouraging Presidential leadership.
3 sound technical input including case studies from state and local social service agencies, Social Security offices and pension companies
4 networking with women's groups.
5 responding to IMPACT ACTIONS related to these issues

A sense of justice and the dignity of the human person must underline both the long and short-term goals for reform of retirement income for women. To those working from a faith perspective, the attainment of economic justice for women involves an act of communitive justice, one which will serve the common good

For the Lord your God is God of gods and Lord or Lords, the great, the mighty, and the terrible God, who is not partial and takes no bribe. He executes justice for the fatherless and the widow, and loves the sojourner, giving him food and clothing. Love the sojourner therefore; for you were sojourners in the land of Egypt. Deut. 10:17-19 RSV

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Ms. HAMLIN. Briefly I have been asked to focus on the poverty of aged women and the role of the social security system in perpetuating that poverty. There is a new phrase that I just recently heard that I think is very important. It is called the feminization of poverty. It was first used in a 1980 report of the National Advisory Council on Economic Opportunity and they said this feminization of poverty has become one of the most compelling social facts in this era. The causes of it in relation to social security are several and they are well documented. Briefly, the great majority of women are still channeled into low paying jobs and the result of that final outcome is lower benefits. You have all the statistics on that. I will not repeat them.

Second, our society still puts an exceedingly low value economically on the work of mothers and homemakers. And so the time that married women workers spend outside of paid employment or who work only part-time in order to raise their children and care for their families is not counted as "work" by the labor market for the purpose of computing social security benefits. So again they come out on the very lowest end of the scale. Other indicia of feminization of poverty among the elderly are apparent. One of three aged widows lives in poverty. Seventy-two percent of the elderly poor are widowed, divorced or never married women. Eighty-eight percent of unmarried women receiving social security are 36 percent below the poverty line. The tremendous gaps, as we have heard, in eligibility for benefits work great hardships on divorced and disabled women.

In summary adequate benefits for poor women is a primary concern of the inter-religious community and of the groups that have signed this testimony. The Old Testament is replete with references of the need of a nation that calls itself godly, to care for the poor and the widow. The prophets—and I will quote from Amos—judged the leaders of the nation of Israel for "selling the poor for a pair of shoes." And for "grinding into the dust the heads of the poor." In the New Testament one of the first items of business for the Christian church was to see to the care of widows. This has been a thread throughout our Judeo-Christian heritage.

Finally there is an old maxim that says women and children are supposed to get into the lifeboats first. In today's economic storm the largest lifeboat seems to go to the Defense Department who rides out the storm in battleships and aircraft carriers. The lifeboat for the corporate world seems about the size of the *Queen Elizabeth II.* Elderly women however are left in a leaky rowboat plugged with holes that is in danger of being swamped by the present administrative proposals. We thank you Madam Chairwoman, for your work, your diligence, your capacity to stay awake and the concern that you have for working on these problems.

[The prepared statement of Ms. Hamlin follows:]

PREPARED STATEMENT OF JOYCE HAMLIN, SECRETARY FOR LEGISLATIVE AFFAIRS, WOMEN'S DIVISION, GENERAL BOARD OF GLOBAL MINISTRIES, UNITED METHODIST CHURCH

Chairwoman Oakar and Members of the Special Task Force on Women and Social Security, I am Joyce Hamlin, Secretary for Legislative Affairs of the Women's Division of the Board of Global Ministries of the United Methodist Church. I am speaking today before this Task Force for the Women's Division of the Board of Global Ministries of the United Methodist Church, as well as the following organiza-

tions: United Presbyterian Church, USA, Washington Office; Office For Church and Society, the United Church of Christ; Washington Office of the Church of the Brethren; the Office of Governmental Affairs, the Lutheran Council in the U.S.A.; the National Council of Churches; the Unitarian Universalist Association, Washington Office; the Board of Church and Society, the United Methodist Church; and the National Assembly of Women Religious.

We would like to submit for the record the January 1981 issue of Prepare. This issue of Prepare was written by members of the Public Policy Affecting Women Task Force of the Washington Interreligious Staff Council. My testimony today will consist of excerpts from this issue of Prepare on Economic Justice For Women: Retirement Income.

People of faith have long been committed to the biblical tradition of human liberation that is extended to all, both female and male. In the prophetic-messianic tradition the side of the disadvantaged is taken. God vindicated the oppressed and judges the existing social order and its hierarchies of power—religious, economic and social. The biblical tradition is one of social criticism and the expression of hope for a just society on earth.

Concern for the poor proceeds not simply from a love or compassion for them in their suffering, but is rooted in the very precept of justice in the Hebrew Scriptures. Commitment to the poor and oppressed is at the heart of the Judeo-Christian concept of justice. God, through Mosaic law and prophetic cires, seeks justice for the poor (Deut. 10:18, Is. 11:4). In the preaching of Isaiah, restaged by Jesus, the vision of the "acceptable year of the Lord" is defined as "good news to the poor * * * setting at liberty those who are oppressed." (Is. 61:1-2, Lk. 4:18-19). Following the example of Jesus' outreach to the poor, the early Christian communities saw to the needs of the widows, the elderly and those lacking the necessities of life.

A task for a Scripture-based religious community is to recognize that all persons share in an equal claim to the bounties of God's creation and an equal right to the necessities of life. To be just is to engage actively for fulfillment of the rights for all. The marginal groups in society, whether based on sex, race or economics, become the scale on which the justice of the whole society is weighed. When individual rights to the common resources are denied, the community suffers and the social fabric is weakened. Women, and how they are treated, are integral to the good of society.

It is important to note at this time that the problems older women face with the Social Security system do not begin at retirement. Women are victims of low paying and low-status jobs from the time they enter the workforce. Some women's sole economic contribution is as a homemaker and mother. For this reason I would like to speak first on the wage differentials between man and woman, occupation segregation, and women in poverty before continuing on the the Social Security system.

"More than 5 million women over the age of 65 alone, and half that number are living their last years below the official poverty level. What happened to them is not inevitable but is rather the result of discrimination throughout their lives which strikes its cruelest blow at the end."—Representative Patricia Schroeder (CO).

Recent statistics show that 72 percent of the elderly poor are widowed, divorced, or never-married women. The fact that many women are left destitute in their old age is a result of several factors, some of which affect men as well. But certain conditions are distinctive to women. The most important of these are: (1) the economic value society has assigned to women's work, both within and outside the home; and (2) the inadequacies and inequities of existing retirement programs.

Legislative reforms which would improve the economic status of women, especially the elderly, should be guided by three principles:

1. Any reform must address the fluid and diverse roles of women.
2. Any reform must provide adequate and equitable treatment for women in their retirement years.[1]
3. Systemic reform can include progressive interim measures as valid steps toward the achievement of economic security for women.

In 1977, 24 percent of women in the workforce were never married, 19 percent were widowed, divorced, or separated and 21 percent were married to husbands who earned less than $10,000. Thus at least 64 percent of the female labor force worked out of need.

Although women are asserting themselves in the marketplace, they are still victims of low-paying, low-status jobs. According to a 1979 study by the Women's

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[1] Adequacy means to assure sufficient resources for retirement or disability. *Equity* refers to equal treatment of various classes of beneficiaries. Cost for reform for one group must not be made to the disadvantage of another group. Both adequacy and equity are seen as complementary goals.

Bureau of the Labor Department, the wage differential between men and women hovers around 60 percent—a relatively constant figure since the turn of the century. The study attributed wage differential to women's concentration in low-paying jobs, the large population of women in or near the entry level of the labor force and, to a certain extent, the lingering pockets of discrimination in hiring and promotional advancement of women.

Women are still subject to occupational segregation. In 1977, over two-thirds of female workers were in stereotypically female jobs—clerical workers, service workers, teachers and nurses. In addition, women get less economic return from education and training than men do.

Although women are having smaller families and thus more working years, women entering the workforce after childbearing can expect to earn less than their male-counterparts who, in the meantime, have been climbing the organizational ladder.

The influx of married women with small children in the workforce has been largely responsible for the increase of the part-time workers—combining a desire or need to work for pay with home and family responsibilities.

In 1976, 40 percent of women, but only one percent of men, stated their reason for working part-time as "taking care of the home." These part-time jobs are generally low paying with little chance of advancement and without job security or fringe benefits.

Statistics on the wage differential between men and women give little encouragment that the gap will close by the 1990's. At present women earn 59 cents to the $1 earned by men for full time comparable work. Evidence indicates that the ratio will fluctuate slightly around 60 percent of the earnings of men into the 1990's.

While the majority of women work because of economic necessity, special attention needs to be given to women in poverty. According to a U.S. Commission on Civil Rights report (July 1979) the designation "women in poverty" includes women of all races and ethnicities, ranging in years from mid-teens to old age. Frequently, a women is the sole supporter of her children or of aged relatives. Contrary to some stereotypes, women in poverty are not only those on the rolls of welfare agencies, but also in the workforce with incomes below the poverty level, concentrated in low-skilled, low-paid, traditionally female job occupations. Many women whose only incomes are from social security, private pensions, or annuities also live in poverty. The 1975 census revealed that:

Approximately 20 percent of female-headed families (those without husbands) which receive wages or salaries have incomes below the poverty level.

Nineteen percent of female-headed families with income from private pensions, annuities, or alimony are in poverty.

Women also represent three-fouths of all persons receiving public assistance and welfare payment—and of these women, more than half are living in poverty.

An October 1980 report, "Critical Choices for the 1980's" by the National Advisory Council on Economic Opportunity cited that ". . . the 'feminization of poverty' has become one of the most compelling social facts of the decade. Almost one female-headed family in three is poor; about one in 18 families headed by a man is poor." The Council argued that at the present rate "the poverty population would be composed solely of women and their children by the year 2000."

The Social Security program was established in 1939 to provide a supplemental protection in retirement for workers in covered employment. In 1939, the program was amended to provide benefits to workers' wives and widows as dependents. The system, which protected women as dependents, was predicated on a tradition of lifelong marriages where women worked within the home and men provided economic support. Although the roles of women in the home and in the workplace have changed dramatically since the 1930's, the Social Security system has remained unchanged.

In general, two-earner couples receive smaller benefits in relation to the Social Security taxes they pay than do one-earner couples. This is due to the design of the actuary tables which determine the amount of the dependent spouse's benefit. The greatest inequity in this regard occurs when the earnings of each spouse are comparable.

Women who are low-earning members of a two-earner couple frequently find that the benefits they would have received as a dependent spouse are often higher than the actual benefits based on their own work record.

Married women workers receive substantially lower benefits than men workers. This occurs because: (1) the average wages for women are lower than those for men, and (2) the time married women workers spend out of the paid labor force or work part-time to raise children and perform homemaking duties is not counted as "work" by the labor market for the purpose of computing Social Security benefits.

Benefits are computed by averaging earnings from the labor market. Therefore, years spent outside of the paid labor force are considered as "0" earnings. Thus, women workers who leave the labor force to raise children and perform homemaking duties receive a reduced final retirement benefit.

While women and men are treated equally in determining benefits, women receive less because of their traditionally lower wages. Today, men receive an average monthly retirement income of $339 while a woman receives only $230.

Inequality is claimed by the single worker in contrast to the one-earner married couple. The latter receives a supplement to the worker's benefit—the dependent spouse's benefit—while contributing no more to the system than the single worker with like earnings.

One out of three aged widows lives in poverty and a majority of elderly women depend on Social Security as their only source of income. Eighty-eight percent of the unmarried women who receive social security are 36 percent below the poverty level. As in the case of one- and two-earner couples, the survivor of a two-earner couple receives a lower benefit than the survivor of a one-earner couple with comparable earnings.

A widowed homemaker is eligible for 100 percent of her husband's benefits only if she is age 65 or over. The benefit is reduced if taken before age 65 and the reduction remains with her during her lifetime. These actuarial reductions are equal to 17.1 percent if the benefit is taken at age 62; 28.5 percent if taken at age 60. Widows younger than age 60 cannot receive Social Security benefits unless they are disabled or have children under age 18 in their care and entitled to benefits. Thus because of this "widow's gap" many women homemakers who are widowed in middle age are confronted with no Social Security protection at a time when they face serious difficulties entering or reentering the labor force.

Inadequate benefits for divorced women are especially pressing since the marriages of one out of three women age 26-40 are projected to end in divorce. A divorced woman is not entitled to Social Security benefits from her former husband if the marriage lasted less than ten years. This regulation works to the disadvantage of women since it is during the initial ten years of marriage that a woman is most likely to leave the labor force to have children. Further, the divorced wife's benefit of 50 percent of her husband's benefit is often inadequate since the spouse's benefit was intended as a supplement for the married couple, and not as the sole basis of support. A divorced homemaker cannot receive a divorced spouse's benefit based on her former husband's work until he reaches age 62 and retires, even though she may be over age 62. Further, if she is divorced late in life and can only work to support herself for a limited number of years, she has difficulty building up Social Security benefits in her own rights. And again, her Social Security benefit may be low because of the time spent working in the home during the marriage—work which is not covered in its own right under Social Security.

A disabled widow is ineligible for any Social Security dependent's benefits unless she is age 50 or over. If she receives a dependent's benefit at age 50, it is equal to only 50 percent of the deceased worker's benefit. The benefit is equal to 71.5 percent of the deceased worker's benefit if taken at age 60. In 1978, the average monthly Social Security benefit to dependent disabled widows was $166 per month.

A disabled worker must have worked in covered employment for five out of the ten years preceeding disability. It is usually the case that married women workers leave the labor force for longer than five years in order to raise children and perform other homemaking duties. Therefore, they are more adversely affected by the five-year test than are their male counterparts.

Homemakers who become disabled are ineligible for Social Security benefits even though the loss of their services usually means extra costs for the family in addition to the extra expenses associated with disability. This situation is particularly critical to divorced or separated homemakers, who, in many instances, are not supported by their husbands or former husbands.

There have been no proposed options that perfectly address the adequacy and equity issues raised with regard to the treatment of women under Social Security.

Most options have been proposed as vehicles for discussion in the extensive debate which must occur prior to significant public policy change. Support needs to be given to those measures which add to current benefits, especially those which address those women living at or below poverty level.

We, people of faith, believe that comprehensive Social Security reform must embody the following provisions.

It must provide equal treatment of women homemakers and women workers.

It must recognize the economic value of homemaking and child rearing.

It must address the diverse and fluid roles of women during their lifetime.

It must provide adequate economic security for the elderly, particularly women.

It must be funded at sufficient levels so that benefits are not shifted from one type of beneficiary to another.

Ms. OAKAR. Thank you very much, Joyce. Thank you for those very interesting analogies and biblical quotes. Thank you.

Our next witness is Arvonne Fraser, who is a member of the Advisory Board of Women's Equity Action League and one of the best resolution writers of the U.N. Decade for Women that I can think of, a contribution that was largely because of your ability. I am happy you were able to come today.

STATEMENT OF ARVONNE FRASER

Ms. FRASER. Thank you. I am delighted to be here representing WEAL. Women's Equity Action League, and I am delighted at your interest in this subject. WEAL was founded in 1968. I should say I can now appear because I am no longer a Federal employee so I am back doing my old thing. WEAL was founded in 1968 as a national organization dedicated to securing and protecting equal rights for women. I was the former president of that an the legislative chair and while legislative chair we developed the earnings sharing concept on social security and I am delighted to hear its acceptance here. I will summarize and submit WEAL's testimony for the record. We wanted to make three points today. They have all been made but we want to reiterate the older woman is part of the most disadvantaged population. Second, society and the social security system both contribute to economic problems of the older woman. Third, the administration's March and May proposals to reduce and eliminate certain social security benefits will further disadvantage older women as workers, spouses and widows. I must say as I sit here I realized I was rapidly becoming one of those about which we are discussing today so it gets closer to home. I was also aghast that the administration here today seems to say that well, it is tough if women are disadvantaged under these proposals, and amazed to hear them say social security is bankrupt but somehow bombs and battleships are a good buy these days and there is no problem to finance them. In 1976, 59 percent of aged social security beneficiaries were women including 8 million dependent wives and widows. Many older women are not likely to have earnings and when they do they earn less than men and although today over 50 percent of all women 18 and over are in the work force and are remaining there for longer periods, we must not fool ourselves and others into thinking women have become or will be the economic equals of men in the near future.

President Reagan's proposal to completely eliminate the minimum social security benefit for over 3 million beneficiaries who are currently eligible to receive it as well as for new beneficiaries coming onto the roles—this policy decision was based on 1977 report of GAO which WEAL believes is very scanty and inconclusive evidence.

Ms. OAKAR. I am glad you mentioned that report because that is so often quoted and they did not account for 25 percent of the people. They just left them out and guess who they are. They are the people between 70 and 90 years old who most often are women. They need that $122, so it is a very fragile point.

Ms. FRASER. CRS data shows 78 percent of the minimum beneficiaries are 65 or older and many as you indicated are much older. Among the retired and disabled workers alone there are 1.5; 5 million beneficiaries 70 years and older. 532,000, 80 and older and 80,000 over 90. Those are the ones receiving the minimum benefits and somehow they are supposed to live on a big cut.

No matter how poverty is defined, we know that eliminating the minimum benefit will harshly impact women. Women who will be especially hurt are: Retired workers receiving the minimum benefit as well as a small, Federal, State, or local pension; never married retired workers receiving the minimum benefit but who worked the majority of their work-life in employment not covered by either a pension or other retirement benefits—domestic workers, low-paid, part-time workers, and others—aged widows who are receiving a survivor's benefit based on a deceased spouse's minimum benefit, but little or no additional income; and minimum beneficiaries who are early retirees, age 62-64, widows age 60-64, and spouses age 62-64, for they are too young to qualify for SSI. I want to quickly point out one other aspect of the administration's proposals that will affect women and I do this based on personal interest in social security. My first encounter with social security was with survivors, two neighbors in southeast Minneapolis, one a widow and five children and another two orphans, both mother and father died, and student benefits are what made the future lives of those children really much better. The proposal to cut those out I think is unconscionable. Because women live longer, frequently they are the survivors this proposed cut in student benefits would be very disadvantageous to widows who are paying for their childrens' education.

We obviously heard a great deal of what everybody else is saying or is going to say to let me just go to the conclusion. The Women's Equity Action League recognizes that the social security system is undergoing financial difficulty, and we agree that solutions must be found. We do not accept, however, the solutions proposed thus far. The March proposals take benefits away from vulnerable individuals already receiving them and depending on them. These are mostly older women and students. The May proposals are more than discouraging of early retirement. They are punitive, and they threaten a massive reduction of benefits to almost everyone, but impact most harshly minorities, low income individuals, and women. We urge the committee to examine carefully and thoughtfully alternatives to the administration's plan and make sure that the concerns of elderly women—59 percent of people over 65 and the poorest segment of the population—are uppermost in your mind. Like others I say the women of this nation, cannot and should not be asked to bear the economic hardship which will result from the administration's attempt to change the social security system and thus balance the budget.

Thank you.

[The prepared statement of Mrs. Fraser follows:]

PREPARED STATEMENT OF ARVONNE FRASER, FORMER PRESIDENT, MEMBER, NATIONAL ADVISORY BOARD, WOMEN'S EQUITY ACTION LEAGUE (WEAL), WASHINGTON, D.C.

Congresswoman Oakar, members of the committee, I appear before you representing the views of the Women's Equity Action League, known as WEAL. Founded in 1968, WEAL is a national organization dedicated to securing and protecting equal rights for women. WEAL is one of the founders and an active participant in the National Coalition on Older Women's issues, an organization of groups whose primary concern is the economic problems of people as they grow older. I commend the committee for making this their concern as well.

I want to make three points today. First, older women are a disadvantaged population. Second, society and the social security system contribute to the economic problems of older women. Third, the administration's March and May proposals to reduce and eliminate social security benefits will further disadvantage older women as workers, dependent spouses, and widows.

In 1976, of a total of 24.5 million aged social security beneficiaries, about 14.5 million (59 percent) were women, including 8 million dependent wives and widows. At the end of 1980, women retired workers 65 and over comprised 46 percent of all retired workers. So when we talk about public policy and social security, we must consider its impact on women.

Older women are the fastest growing segment of our population. They are also the poorest. Seventy percent of women over 65 are or will become widows, living alone for an average of 18 years. Thirty percent of elderly women living alone are poor. The poverty rate for elderly minority women living alone is the highest in the Nation: 47 percent for hispanic women and 62 percent for black women. Those older women who do not fall within the official measure of poverty, under $4,000 a year, hover precariously above it.

Older women are not likely to have earnings, and when they do, they earn less than men. In 1979 fully employed women between the ages of 55 and 64 earned $10,664 as compared to $19,437 earned by men in the same age group. The Median income for women 65 and over was $3,760 as compared to $6,430 for men over 65.

Although today, over 50 percent of all women over age 16 are in the work force and are remaining there for longer periods, we must not fool ourselves and others into thinking that women have become, or will be in the near future, the economic equals of men. A combination of low wage histories and lack of adequate private pension coverage force most women into dependence on social security as their primary source of retirement income. Of women workers' retiring today, only 21 percent have had private pension coverage on their longest held job, and only 13 percent ever actually collect benefits.

The reality is that 60 percent of all unmarried women over 65 depend on social security as their only source of income. In December 1979 the average monthly social security benefit for women was $256, and for those who elected to receive benefits early, the average was $238, or less than $3,000 a year. This meager benefit reflects women's employment patterns and low wages; an averaging formula in which childcare years (over 5) count for zero; actuarily reduced benefits of spouses and widows; and a society which places little value on the homemaking role.

I will now address the way in which some of the administration's proposals will further disadvantage older women.

ELIMINATION OF THE MINIMUM BENEFIT

In March 1981, the administration proposed the full elimination of the minimum benefit. This benefit is awarded to workers who would otherwise receive a lesser amount based on their earnings record and short term or sporadic work history under covered employment. In addition, dependents and survivors of retired, deceased or disabled workers receive social security benefits based on the minimum benefit.

In 1977 Congress decided to freeze the minimum benefit at $122 and, in effect, phase it out. As earnings rise, the minimum benefit would cease to boost a recipient's retirement benefit over what s(he) earned based on social security taxes paid during years in covered employment. Individuals who became eligible for benefits in 1978 or earlier are still receiving benefits based on the old minimum benefit procedure and may be receiving a monthly benefit of up to $153. The new "frozen" minimum applies only to individuals who reached age 62, became disabled or became eligible for survivor's benefits in 1979. All minimum beneficiaries, whether under the new "frozen" or old procedures receive cost-of-living adjustments once they come on the rolls.

President Reagan decided to eliminate the minimum social security benefit for over three million beneficiaries who are currently eligible to receive it, as well as for new beneficiaries coming onto the rolls. This major policy decision was based on a 1977 report of the General Accounting Office (GAO). WEAL is appalled that a decision of this magnitude was based on scanty and inclusive evidence found in this report, which fails to make a case for eliminating the minimum benefit even prospectively.

GAO fails to provide comprehensive enough data to show who the recipients of the minimum benefit are and how they will be affected by its loss. Indeed, they provide no financial data for 26 percent of their sample and inconclusive data and questionable conclusions about the finances of the remaining 74 percent.

Further GAO and the media have distorted and exaggerated the issue of "double-dipping." They report that 15 percent of minimum beneficiaries have a Federal pension and its average is $900 a month. However, 20 percent of these Federal pensioners receive only $250 to $300 a month in Federal pension benefits. The Social Security Administration (SSA) says, however, that only 12 percent of minimum beneficiaries have public pensions; and of these, only 6 percent have Federal pensions. SSA data shows that 22 percent are receiving a pension of less than $300 a month. So you see, there is no agreement either on the number of minimum beneficiaries receiving a Federal pension or on the dollar amounts of these pensions.

If the administration eliminates the minimum benefit, the average recipient will suffer a 40 percent reduction in her monthly benefit. We say her because, this proposal disproportionately affects women. SSA data reveals that women are 76 percent of all beneficiaries receiving the minimum benefitas retired or disabled workers. Further, the Congressional Research Service (CRS) estimates that when widows and dependent spouses are added, women will comprise 85–90 percent of all minimum beneficiaries currently on the rolls. Indeed, WEALL's analysis of December, 1980 SSA data confirms CRS projections. Our research shows that 99 percent of the minimum benefdiciaries receiving benefits as survivors age 60 and over are women.

The administration claims that of the 3 million eligible to receive the minimum benefit, about 1 million recipients will suffer no loss in income because they are dually entitled—receiving a benefit based on their spouse's employment record. An additional 500,000 minimum beneficiaries currently receive supplemental security income (SSI), a form of welfare which would increase, dollar for dollar, to make up for the loss of the minimum benefit. The administration estimates that another 450-500,000 individuals will become newly eligible for SSI with the elimination of the minimum benefit; However the administration also estimates that only 145,000 will apply for SSI. But of the remaining individuals whose monthly income will actually diminish with the loss of the minimum benefit, 900,000 are women, most of whom are old. (CRS) data shows that 78 percent of minimum beneficaries are 65 or older, and many are considerably older than 65. For instance, among the retired and disabled workers alone, there are about 1.5 million beneficiaries 70 years or older: of these, 532,000 are 80 or older, and 80,000 are 90 or older.)

The administration cites the GAO report and claims that 74 percent of the minimum beneficiaries do not need the benefit; they have sufficient income and can do without it. But GAO defines "sufficient" as having enough annual income to be ineligible for supplementary security income (SSI), a form of welfare with a strict income and asset test. Sufficient therefore means having an income of more than $3,100 a year. $3,200 misses the mark! This is a ludicrous standard when we consider that the Department of Labor announced in March that the Nation's official poverty level for a single-person family is $4,310.

No matter how poverty is defined, we know that eliminating the minimum benefit will harshly impact women. Women who will be especially hurt are:

Retired workers receiving the minimum benefit as well as a small, Federal, State, or local pension;

Never married retired workers receiving the minimum benefit but who worked the majority of their work-life in employment not covered by either a pension or other retirement benefits (domestic workers, low-paid, part-time workers, and others);

Aged widows who are receiving a survivor's benefit based on a deceased spouse's minimum benefit, but little or no additional income; and

Minimum beneficiaries who are early retirees (age 62–64), widows (age 60–64) and spouses (age 62–64) for they are too young to qualify for SSI.

DISCOURAGEMENT OF EARLY RETIREMENT

Approximately 70 percent of all women who receive social security benefits choose actuarily reduced benefits for life. In 1980, women accounted for 51 percent of all

retired workers age 62-64 receiving social security benefits early. In 1977, about 25 percent of women receiving benefits as spouses took them early. In 1979 this reduced benefit averaged less than $3,000 a year.

The administration proposal rests on the assumption that beneficiaries retire voluntarily and enjoy good health and unlimited employment opportunities. A 1979 Harris survey revealed that 51 percent of early retirees had to retire, and a Social Security Administration survey showed that only 22 percent retired voluntarily, while 75 percent cited poor health and employment problems.

Under the administration's May 1981 proposals, women will suffer both as workers and dependents. As workers they will continue to need to retire early, but they will receive only 55 percent of their age 65 benefit instead of the 80 percent they are currently eligible to receive. Two examples follow:

A displaced homemaker who has never worked outside the home, divorced with no skills, takes her social security benefit at age 62 in order to survive. Her retired ex-husband's age 65 benefit is $300 a month. Under the administration's proposal, she will receive a reduced social security benefit of $82.50 (55 percent of her age 65 benefit) instead of $112.50 (75 percent of her age 65 benefit)—a loss of $30 a month, almost one-third of what she would have received under the current law.

A traditional couple, retiring at age 62 (worker's age 65 benefit is $300) would suffer a combined loss of $105 a month. Under the new proposal, the worker receives $165 instead of $240, and the spouse receives $82.50 instead of $112.50. Their monthly checks go from $352.50 to $247.50 (a 30 percent reduction on their already marginal retirement income). If the wife does not take her reduced spouse's benefit at 62, the long term financial picture is somewhat improved. But while she is waiting for her benefit to be worth more, the couple would live on the worker's reduced monthly benefit of $165 (55 percent of $300) without the added $82.50 (55 percent of $150) spouse's benefit.

DISABILITY INSURANCE REFORMS

The administration's proposal requires that to be insured for disability an individual must have worked in covered employment for 7½ out of the last 10 years, instead of 5 out of the last 10 years. Women, low wage earners, and minorities will suffer under this proposal because as groups, they have a higher incidence of disability and significantly lower labor-force participation rates. Women who leave covered employment for family responsibilities for even a brief time will, of course, be negatively affected.

Disregarding non-medical factors when determining disability qualifications will negatively affect older women workers, especially those who are factory and service workers and have less than a high school education and few transferable skills. Under present law, the combined effect of a 60 year old woman's age, health, education and employment history might render her unable to work. Under the new proposal only medical factors would be considered, and despite the reality that she could never secure another job, this 60 year old could be deemed ineligible for disability payments.

RAISING AND PHASING OUT THE RETIREMENT TEST

While eliminating the "earnings limit" may not affect all women, it will help some. Primarily, it will help workers over 65 who have good skills and work experience, good health and a satisfying job; the great majority of these are men. Only 8 percent of women age 65 and over are currently employed and one-half are working part-time. Wives of workers who continue to earn will benefit as will divorced spouses who have not been able to receive social security benefits because their ex-husbands, discouraged by the earnings test, have not yet retired.

REDUCTIONS IN FAMILY BENEFITS, RESULTING FROM APPLYING DISABILITY CAPS TO RETIREMENT AND SURVIVOR BENEFITS

The proposed application of the disability cap to family benefits in retirement and survivor cases will reduce, and in some cases totally eliminate, the spouse's and, if applicable, child's benefit. This of course will impose a hardship on a great many families and women, especially those in families of low income workers.

CONCLUSION

The Women's Equity Action League (WEAL) recognizes that the social security system is undergoing financial difficulty, and we agree that solutions must be found. We do not accept, however, the solutions proposed thus far. The March proposals take benefits away from vulnerable individuals already receiving them and depend-

ing on them. These are mostly older women and students. The May proposals are more than discouraging of early retirement. They are punitive, and they threaten a massive reduction of benefits to almost everyone, but impact most harshly minorities, low income individuals, and women. We urge the committee to examine carefully and thoughtfully alternatives to the administration's plan and make sure that the concerns of elderly women—59 percent of people over 65 and the poorest segment of the population—are uppermost in your mind.

AGING WOMEN TO BEAR THE BRUNT OF ADMINISTRATION'S PROPOSED SOCIAL SECURITY CUTS

The women of this Nation cannot be asked to bear the economic hardship which will result from the administration's attempt to salvage the social security system and balance the budget, stated Arvonne Fraser, past-president of Women's Equity Action League (WEAL), a national membership organization pledged to secure economic equity for older women. Fraser appeared before the House Select Committee on Aging's Task Force on Social Security and Women and was joined by other women's and aging advocacy groups in critizing the Reagan administration's proposed changes in the social security system.

Fraser recognized that the social security system is undergoing financial difficulty and agreed that solutions must be found, but stated that WEAL could not accept the proposals thus far since they take away benefits from vulnerable individuals, most of whom are women and are depending upon the benefits for survival.

Fraser called these proposals punitive to women who are forced to retire early for reasons of health and limited employment opportunities rather than choice. She sees the administration offering welfare as the alternative to starvation—a demeaning blow to older women who have worked their whole lives as productive citizens, whether in the home or the workplace.

Fraser cited the elimination of the minimum and student benefits as examples of actions which will hurt older women. She also listed limiting disability and family benefits as harmful to the senior population. In 1976, almost 60 percent of the social security beneficiaries were women and their average monthly benefit in 1979 was $256. For women who must retire early, the benefit is $238. Fraser emphasized that this is hardly an amount that can withstand further cuts.

Fraser concluded that the women affected most immediately by these proposals are not today's young, modern, professional working women. They are 40 to 90 years old and have grown up with a different set of rules and guidelines. Many have married, reared children and have been supportive partners with a man whose single salary was expected to meet all the family's needs.

Few women are prepared to live with divorce or early widowhood. Most have out-of-date job skills and little self-confidence. Few have retirement benefits adequate to meet today's inflationary needs. These women have been taught to rely on the social security system to provide for them and their families in case of death, disability or retirement. The administration's drastic cuts and debilitating proposals are a betrayal of this Nation's promise to its aging Americans, added Fraser.

Ms. OAKAR. Thank you very much. Our next witness is Laurie Shields, who is with the Older Women's League.

STATEMENT OF LAURIE SHIELDS

Ms. SHIELDS. Maybe I am the oldest panelist here. I admit to being 61. I also admit to being in great awe of you. I did not know that it was part of a Congresswoman's job to be able to sit for hours without leaving and never lose her sense of humor and never lose the ability to keep the testimony on track. Congresswoman, congratulations. You also helped me make up my mind to never run for office.

Ms. OAKAR. When the subject is interesting we do have a lot more staying power.

Ms. SHIELDS. Our national office is in Oakland, Calif., but I have come cross-country specifically because this issue is of great concern to our membership and our membership, the women in the Older Women's League, are the people who are experiencing these problems or will shortly experience them. It seems to me that

women, especially older women and their stake in the proposed changes have been curiously missing from materials presented by the administration's spokespersons or, for that matter, from media coverage of the subject. This despite the fact that almost two-thirds of all adult social security recipients are women; this despite the fact that older women are far more dependent upon social security for survival then are men; and this despite that fact that since women live longer, we do have a greater stake in what happens to the system now and in the future.

Everyone agrees, social security as it is presently structured is in trouble. But the administration says it wants to make sure that the little old lady who depends on social security will continue to get her check. To which we in the Older Women's League retort, "if you really cared you would not propose reductions that particularly affect women."

Mindful that others on the panel will testify, I will limit myself to discussing just two of the proposed cuts and the potentially devastating effect they will have on women: the so-called early retiree disincentives and the proposed slash in disability benefits. Before even going into that, I would like to comment on something I picked up sitting in the room as other witnesses testified, particularly Dr. Ricardo-Campbell. The attitude that was expressed when she said "Women who never worked"—suggests she has an entirely different definition of homemakers and their in-kind, unpaid contribution to a social security record than I do. Entirely different one. To borrow Joyce's format I will be glad to tell Dr. Campbell she should think in terms of the Old Testament and a homemaker wife is one who "serveth well her family and eateth not the bread of idleness." That is as true today as it ever was.

I take exception to her use of—and I do not mean her's personally because I think this is the administration's point—the BLS figures that show a 46-percent increase in women in the work market aged 25 to 64. But BLS shows no breakdown of where and at what age range that increase occurred. She talked about—and I thought insensitively if not callously—since women are going to live to 80 they should get used to working longer. That is a shocking thing to say to the women of my generation who really, like it or not, have problems where we do not and cannot get jobs for a very good reason. Age bias is rampant in this country. And nobody is talking about it. It is the most invisible of all the "isms" and we have yet to deal with it. The whole pitch to early retirement disincentives suggest that everyone 62 to 65 has the option to work. But that is not true. Most women—and many men—take benefits early for a very good reason. They have to. Somebody mentioned widows. Yes, of course, 70 percent of the women who now claim benefits early do so because they have no other choice. They take a 20-percent reduction for life when they do that. The administration's proposed sharp reductions for taking benefits early would force many more women on to SSI, turning them from the benefits of an earned rights program to those less likely to be available under a means tested program. The spouses' benefits for early retirees forced into it by illness, for example, would similarly be reduced, meaning that a couple would enter retirement with much less income than anticipated.

Moving along to consideration of the administration's proposed cuts in disability benefits, we contend that regulations already discriminate against many older women and the proposed changes will only increase this discrimination. There is, for example, direct discrimination in the current regulation that measures the disability of surviving spouses (most of whom are women). Widows have to meet a stricter test of disability than all other beneficiary groups. Most of today's older women have been homemakers and because homemaking has not been given vocational status, the widow's disability claim is judged solely on medical evidence and excludes vocational factors such as age, education and work experience.

Instead of broadening the basis for widows applying for disability, the Reagan administration now proposes to equalize regulations by having everyone establish disability on the basis of medical evidence alone. As any disabled widow can tell you, the result of the stricter test will be to dramatically reduce the number of disabled beneficiaries. The administration would add another requirement—claimants will have to have worked in covered employment in 6 out of the previous 13 quarters and workers must have been in covered employment for 7½ out of the last 10 years in order to be insured for disability. The worker most likely to have extended periods out of covered employment is, of course, the homemaker, wife, and mother. The Social Security Administration, we are told, estimates that just under the proposed six-thirteenth requirement alone, between 8 and 9 percent of applicants eligible under the current law would no longer be eligible.

During Mr. Schweiker's recent testimony, Representative J. J. Pickle challenged the administration's plan which would take $24 billion of their proposed total of $88 billion social security cuts out of the disability program alone, noting that while 65 million persons would remain protected, 30 million Americans would be deprived of their current disability protection. This was summarily dismissed with the comment that other programs for the disabled would take up the slack in a humanistic, effective way. Administering social security on the cold and calculating insurance principle of increasing forfeitures in order to benefit the remaining beneficiaries amounts to an unconscionable and cynical move on the administration's part.

This administration, from the President on down, tells us that old age and survivors insurance will not have enough money on hand to pay benefits after mid-1982 unless their specific changes are made. From the vantage point of his 34 years and possibly with a crystal ball, David Stockman predicts the most devastating bankruptcy in history on or about November 3, 1982.

These are "Chicken Little" scare tactics in an attempt to stampede Congress into cuts of vital entitlements. Knowledgeable people have, for years, proposed changing of the financing of social security, to maintain entitlements while adjusting to changing economic circumstances. These include permitting interfund borrowing, combining assets of the three trust funds, shifting hospital insurance over the general revenue or strengthening the system with general revenue funds as other industrial countries do.

In the summary of his presentation May 21 to the House Select Committee on Aging, Mr. Schweiker threw out a challenge: "Those who criticize the administration's proposals have a clear responsibility to advance their own proposals to deal with the social security crisis."

Perhaps it is only older women who can point out the Emperor has no clothes and remind the administration that it has a clear responsibility to be less hasty in proposing changes that will drastically alter a time-honored American program.

The most recent poll that was done in Time magazine, which gave Reagan high marks in some areas, revealed that there is a "widespread skepticism about the equity of Reagan's budget cuts: 71 percent believe that some people—primarily the poor and the elderly—will be hurt more than others." Poor elderly persons are primarily women.

The Older Women's League urges the Members of the House and the Senate, to resist pressure from the administration for substantive change in the social security system without sufficient investigation into options for change and a clearer picture of women who will be most affected by change. A hastily assembled across-the-board package of cuts is not a desirable nor an equitable solution. Equality between unequals is not true equality. And we must never forget that. Older women across the country are not going to let Members of Congress forget it. While at the same time we are saying from the bottoms of our hearts—Congress is our only hope. I hope that those empty seats around you do not reflect a lack of concern for our issues. We will need all the support we know we have from you and your colleagues—that and a lot more. Thank you very much.

Ms. OAKAR. Thank you very much.

Let me just say that a number of Members wanted to be here. There are other meetings going on. We are faced now with this budget situation where we are really asked to be in committees to go over the line items, so I want to apologize for those Members who cannot be here and I am sure in most cases it is not because of disinterest. But your testimony is very important and I will make sure the people get copies of it.

Ms. SHIELDS. Earlier, somebody was talking about the defense budget. I have decided this administration is not going for guns and butter or even guns and margarine. What they will go for is guns and crumbs and that is what we are going to get.

Ms. OAKAR. Thank you very much. I think it is an interesting analogy.

Let me go to Mildred Jones who is with the Displaced Homemakers Network and we are grateful for you being here. You may proceed.

STATEMENT OF MILDRED B. JONES

Mrs. JONES. I have cut my testimony considerably, but on behalf of the millions of displaced homemakers across the country I would like to go on record to give some testimony as to how the proposed changes will affect this population.

It is ironic that this administrations' proposals will fall so heavily on women who chose society's most traditional role as full-time

homemakers. Through widowhood, separation, divorce, abandonment, or disability of a spouse, they become displaced, losing their source of support and their role as homemaker. The Department of Labor Women's Bureau estimates that there are over 4 million displaced homemakers in the United States and nearly half are between 55 and 64. In fact, about 15 percent of all women 55 to 59, and 20 percent of all women 60 to 64 are displaced homemakers. That works out to 1 million women ages 60 to 64 who will be affected by changes in social security in the next few years, and two-thirds of these displaced homemakers are now economically disadvantaged.

I will mention several important ways in which the proposed social security changes will affect displaced homemakers, particularly the disincentive for early retirement. When proposed changes in benefit levels for early retirement were made public 3 weeks ago, most newspapers published charts of current and proposed benefits. What was not immediately evident to the casual reader, however, was that these were tables of workers' benefits. If benefits are reduced to 55 percent for workers at age 62, the same benefits are reduced to 27.5 percent for spouses at age 62. Under the proposals, for example, a 62-year-old divorced spouse who is eligible to collect social security next January will receive a monthly check ranging from a low of $82 to a high of $155, depending on the worker's wages. This represents a permanent 29 percent cut from the benefits received if she deferred retirement until age 65. Taking the best case, can anyone seriously propose that she can survive on $1,863 per year in 1982?

The rationale for this proposed cut is that it will encourage older workers to remain in the labor force longer. This assumes that all persons age 62 are currently in the paid labor force, and that they are able to work until age 65. Widowed, separated, and divorced women ages 55 to 64 are now in the labor force at rates that equal or exceed the rates for all women.

For newly displaced homemakers, however, the transition to the paid labor force in late middle age is extremely difficult. They face personal barriers, such as lack of confidence, a recent work history, and readily apparent skills, as well as the twin social barriers of age and sex discrimination—and for minority displaced homemakers, race discrimination. Many will be forced to take these greatly reduced and completely inadequate benefits, because they will have no other source of income, and cannot find employment. The "disincentives for early retirement" will also have the effect of lengthening the widow's gap—the years after children have reached age 18, but before retirement eligibility.

There is one final, very important point I want to emphasize to you today. In order to understand fully the effect these proposed changes in social security will have on displaced homemakers, you must look beyond the social security proposals to other areas of the budget. At exactly the time when displaced homemakers will be under even greater pressure to find jobs, the very programs that have been specially designed to help them make the transition to the paid labor force are being cut.

Dozens of displaced homemaker programs across the country have already closed because of cuts in CETA (such as the freeze on

public service employment, which staffed many of them, or the cuts in title III).

Ms. OAKAR. So the safety net is not existent. Right?

Mrs. JONES. That is very evident. Rescission of vocational education funds will affect many special programs that provided displaced the homemakers with vocational training. And the lack of special targeting in proposed block grants makes it unlikely that displaced homemaker programs, many suffering from State budget cuts, will continue at the current level.

Combined with cuts in food stamps, energy and housing assistance, financial aid displaced homemakers might use to get additional educational training, the total picture is a very gloomy one for the homemaker caught in both a personal, social and fiscal transition.

Displaced homemakers, like all thoughtful citizens, want to do what they can to foster a healthy economy. But a disproportionate share of the burden should not be allowed to crush persons who are among the most vulnerable in our society.

Thank you very much for this opportunity. We will be happy to provide additional information on the testimony we have given should you need it.

[The prepared statement of Mrs. Jones follows:]

PREPARED STATEMENT OF MILDRED B. JONES, DISPLACED HOMEMAKERS NETWORK

Madam Chairperson and Members of the Task Force on Social Security and Women, good morning. My name is Mildred B. Jones, and I am a board member of the national Displaced Homemakers Network, and director of the Women in Transition program at Villa Julie College in Stevenson, Maryland. I appreciate very much this opportunity to speak to you today about the impact the proposed changes in Social Security will have on women.

It is ironic that this administration's proposals will fall so heavily on women who chose society's most traditional role as full-time homemakers. Through widowhood, separation, divorce, abandonment, or disability of a spouse, they become displaced, losing their source of support and their role as homemaker. The Department of Labor Women's Bureau estimates that there are over 4 million displaced homemakers in the United States; three-fourths of them are over the age of 40, and nearly half are between 55 and 64. In fact, about 15 percent of all women 55 to 59, and 20 percent of all women 60 to 64 are displaced homemakers. That works out to 1 million women ages 60 to 64 who will be affected by changes in Social Security in the next few years, and two-thirds of these displaced home-makers are now economically disadvantaged. (See table 1).

I will mention several important ways in which the proposed Social Security changes will affect displaced homemakers, particularly the "disincentive for early retirement." When proposed changes in benefit levels for early retirement were made public three weeks ago, most newspapers published charts of current and proposed benefits. What was not immedintely evident to the casual reader, however, was that these were tables of workers' benefits. If benefits are reduced to 55 percent for workers at age 62, the same benefits are reduced to 27.5 percent for spouses at age 62. Under the proposals, for example, a 62-year old divorced spouse who is eligible to collect Social Security next January will receive a monthly check ranging from a low of $82 to a high of $155, depending on the workers' wages. This represents a permanent 29 percent cut from the benefits received if she deferred retirement until age 65. Taking the best case, can anyone seriously propose that she can survive on $1,863 per year in 1982?

The rational for this proposed cut is that it will "encourage older workers to remain in the labor force longer." This assumes that all persons age 62 are currently in the paid labor force, and that they are able to work until age 65. Widowed, separated, and divorced women ages 55 to 64 are now in the labor force at rates that equal or exceed the rates for all women. (See Table 2).

For newly displaced homemakers, however, the 1 million women ages 60 to 64 I mentioned earlier, the transition to the paid labor force in late middle age is extremely difficult. They face personal barriers, such as lack of confidence, a recent

work history, and readily apparent skills, as well as the twin social barriers of age and sex discrimination—and for minority displaced homemakers, race discrimination. Many will be forced to take these greatly reduced and completely inadequate benefits, because they will have no other source of income, and cannot find employment. The "disincentives for early retirement" will also have the effect of lengthening the widow's gap—the years after children have reached age 18, but before retirement eligibility.

For those who do find jobs late in a working lifetime, chances are the wages will be low. Combined with many years spent in unpaid labor in the home, such low wages will result in minimum benefits for many, and these are now targeted for elimination. The proposed changes point out that "the main beneficiaries of the minimum payment provisions are those with a modest work history in employment covered by Social Security." While many persons falling in this category are eligible for federal or other pensions, we believe that a substantial number of displaced homemakers will be affected, since they are, by definition, persons with a "modest work history in employment covered by Social Security." Proponents assert that minimum benefits would be replaced by SSI. Many displaced homemakers, however, would NOT be eligible for SSI, either because of stringent assets tests, or because they are between 62 and 65. Once again, displaced homemakers will fall through the cracks.

There are two other proposals I would like to comment on briefly. One, a change in definition of disability, would disallow the consideration of a combination of medical and non-medical, vocational factors, such as age, education, and work experience, in determining disability. When combined with health problems, however, it is precisely those vocational factors (particularly age and work experience) that prevent many displaced homemakers from finding jobs. Both this narrowing of definition, and the requirement of additional quarters of coverage, will increase the likelihood that displaced homemakers who truly cannot continue to work will nevertheless be ineligible for disability.

Second, the elimination of student benefits will make it substantially more difficult for widows to insure the post-secondary education of their children unless the slack is taken up by other federal student assistance programs. With cutbacks in student loans and other programs, that seems unlikely.

There is one final, very important point I want to emphasize to you today. In order to understand fully the effect these proposed changes in Social Security will have on displaced homemakers, you must look beyond the Social Security proposals to other areas of the budget. At exactly the time when displaced homemakers will be under even greater pressure to find jobs, the very programs that have been specially designed to help them make the transition to the paid labor force are being cut.

Dozens of displaced homemaker programs across the country have already closed because of cuts in CETA (such as the freeze on public service employment, which staffed many of them, or the cuts in Title III). Rescission of vocational education funds will affect many special programs that provided displaced homemakers with vocational training. And the lack of special targeting in proposed block grants makes is unlikely that state displaced homemaker programs, many suffering from state budget cuts, will continue at their current level. Combined with cuts in food stamps, energy and housing assistance, financial aid that displaced homemakers might use to get additional education and training, the total picture is a very gloomy one for the traditional homemaker caught in both a personal, social, and fiscal transition.

Displaced homemakers, like all thoughtful citizens, want to do what they can to foster a healthy economy. But a disporportionate share of the burden should not be allowed to crush persons who are among the most vulnerable in our society.

Thank you very much. We will be glad to provide you with any additional information you may need.

TABLE 1.—DISPLACED HOMEMAKERS IN THE UNITED STATES

Age	All women (thousands)	Displaced homemakers (thousands)	Displaced as percent of all women
22 to 34	21,606	516	3
35 to 39	6,050	235	4
40 to 44	5,684	281	5
45 to 54	12,143	1,037	9
55 to 59	5,563	828	15

TABLE 1.—DISPLACED HOMEMAKERS IN THE UNITED STATES—Continued

Age	All women (thousands)	Displaced homemakers (thousands)	Displaced as percent of all women
60 to 64	4,906	1,054	22
65 and over	12,791	184	1

Source: U.S. Department of Labor, Women's Bureau, "Tables Pertaining to Displaced Homemakers" 1979

TABLE 2.—LABOR FORCE PARTICIPATION RATES, BY AGE AND MARITAL STATUS

[In percent]

Marital status	Age 45 to 54	Age 55 to 64
Divorced	79	65
Widowed	66	49
Married, husband absent	62	48

Source: Tables 21 and 22, "Perspective on Working Women: A Databook" U.S. Department of Labor, BLS, Bulletin 2080, October 1980

Ms. OAKAR. Thank you. We would like as much information as you want to put in for the record. I think it is very important.

Our last witness of the day is Eleanor Smeal, president of the National Organization for Women. She has testified before the task force several times, and I am really pleased that you could come today, Ellie.

A lot of people don't now that you are from Ohio.

Ms. SMEAL. Ashatbula.

Ms. OAKAR. Right on the lake. There is something about Lake Erie.

We are really happy you are here and those from Ohio are very proud of you.

STATEMENT OF ELEANOR C. SMEAL

Ms. SMEAL. Thank you. I am glad to be here. As president of the National Organization for Women, I wanted to be here because the effects of the social security cuts, as everybody has testified, have a devastating impact on females.

I am going to just submit the National Organization for Women testimony and not even summarize it because what we have done in our testimony is gone through each of the cuts and show the particular impact on females and have presented statistics.

As you know, it is almost with these cuts as if people stayed up nights trying to figure out how they could impact females more than males and how they could in fact impact the poorest and the most impoverished of those females.

It is ironic that I am here because the last time we were here testifying before this subcommittee we had been trying to figure out how to eliminate the inequities and make the program better for females, and there is no question that there has been an increasing bipartisan support for elimination of the inequities and for making a social security system that will service elderly females with dignity.

That we should be going backwards is unconscionable. I don't want for 1 minute to lose sight of the goal that we want to improve the program.

I think that we must do more than just to fight the cuts. Elderly women cannot pay the price of balancing the budget, nor can they pay the price of the inflation that is tearing them apart.

Therefore, I know that it is probably not thinkable in this climate, but we must talk about increases.

We must talk about eliminating inequities and I frankly feel the best defense is a strong offense and I think we must not 1 minute forget we were on the road to eliminating inequities and I think we must still talk about them at this time.

Ms. OAKAR. I want to thank you for that statement.

It is important to me as someone who has introduced this legislation and worked on the whole issue of the inequity issue in social security for 2 years.

I find myself having to put that aside in stopping some of these cuts if it is at all possible.

Ms. SMEAL. I just think we can't set aside. Basically we are obtaining an awareness in this country of how devastating social security has been to females. More and more women are going onto social security. We have seen the statistics today. This is their only source of income. This is not some insurance program. This is survival.

One of the duties I feel of people speaking in trying to eliminate this terrible cruelty toward human beings is to paint the picture of where women really are and what these cuts mean.

I believe they mean some women will starve to death or freeze to death next winter. What we are doing is making it so some must choose between the costs of paying for heating oil or groceries.

Some people say we are exaggerating. I wish we were but that is the case. We are fighting literally for the survival of 70-year-old, 80- and 90-year-old women.

The first time the cut from the minimum benefit was explained to me, it was told to me, don't worry, we will take care of these people because we will just place them on SSI and you are being sort of picky.

I tried to figure that out. One thing I did not like about it is this is a right these people have earned and now you are putting them on welfare and these are the same people who rave about welfare. I didn't like that.

Then I thought more about this program and realized that some of the women and men, but as you know, the statistics are overwhelming that it is primarily women who are 70 and 80 and 90 year olds.

They will not even know what happened to them. They won't even know how to apply for SSI, probably. What that really means is some of these women will not only suffer but die. What a cruel way to balance the budget.

As you know, there were many promises made in the last campaign. As Laurie Shields already said, this presidential candidate said he would not cut social security but he also said he would go piece by piece, statute by statute, to bring about a society that was fair for women and he believed in women's rights.

Of course, this is a massive rollback of women's rights. One of the reasons why I believe that it is so important that you have these hearings is that when people talk about balancing the budget

and social security they act as if it is just statistics and nowhere is the elderly woman pictured.

It is as if it is somehow not human, it is just a financial balancing of the ledger program.

I think we must picture these women and not allow that picture to go away.

We have done a search of the literature on polls and what is the public support. There is a suggestion that there is a generational fight in social security, that the young workers or middle aged are not willing to pay for the elderly.

We cannot find one shred of evidence to support this contention—not one shred of evidence. As a matter of fact, the polls show just the reverse. They show massive public support for social security. They show that people do not want a cut of the current benefits and in fact want an increase of benefits.

Those of us who are the middle aged, why would we want our mothers' benefits to be decreased? Who will pay but in fact those workers who are probably not able to pay and they are already paying into an insurance program or security program for themselves and for their elderly parents.

I cite some polls in my testimony but we have done a very in-depth study of this because we thought there must be something to this contention but we can find nothing to support it.

Not only that, I think that the outrage that has already been generated, that made the Senate go back on the budget cut proposals, is just a token of what the real feeling is.

My mother is 80 years old. I went home on May 22 for her 80th birthday party. In her apartment building there are about 15 women her age. They cannot believe what the impact of these cuts will be on their own lives. They can't understand how it could have happened when they believed the promises.

Not only, incidentally, is the actuality of the cuts cruel, but even the suggestion of the cuts is cruel. The anxiety—these women can hardly balance what they are doing now and they are worried. The rent is going up constantly, the increases hardly pay for increases in rent. You know the expenses that are going up.

But also they worry about the health care and whether there will be cuts in the programs that are so necessary for their health care.

So in essence just the constant discussion of cuts of social security is cruel to those persons currently on social security and those who are about to enter.

I don't think we should forget about that because that is a part of the anxiety. It is a very real anxiety.

It is one of the reasons I wanted to be here because I can tell you the women's movement is dedicated to fighting these cuts. We are growing. As a matter of fact, I speak as one organization but every one of our organizations can say, the Reagan administration is a mass recruiter for the women's movement, and we intend to fight because we must and we are not only going to fight to stay where we are but we are going to go forward.

[The prepared statement of Ms. Smeal follows:]

PREPARED STATEMENT OF ELEANOR CUTRI SMEAL, PRESIDENT, NATIONAL ORGANIZATION FOR WOMEN

As President of the National Organization for Women, I would like to thank Congresswoman Oakar for providing us with the opportunity of testifying today on the effect on women of the President's proposed cuts in Social Security benefits.

Most of the Congressional attention today is focused on the balance sheet side of the Social Security program—so much so that we may lose sight of the elderly women who depend on this program for their survival. Most importantly, we must not lose sight of the older, single woman who desperately depends on her monthly benefit. Despite the President's promise not to tamper with the essential safety net of benefits and services for the truly needy of this county (who are overwhelmingly female) these are precisely the people who will suffer most under his proposed cuts in Social Security. We are outraged that this Administration would cut these life support programs, having promised not to do so, despite the clear lack of public support for such cuts. It is particularly ironic that these cuts arise so soon after the creation of bipartisan agreement that the present benefit structure is inequitable to women and needs to be rectified. The National Organization for Women will not forget for one moment these inequities. In view of these inequities, the proposed cuts are particularly cruel. The average benefit for women is now about half that which is received by men. The proposed cuts will further diminish the meager benefit received by most women under Social Security.

There is not a shred of evidence to support the contention that current workers are unwilling to pay the cost of maintaining current levels of benefits. Indeed, there is evidence that workers today are willing to pay for more adequate benefits in order to lift the elderly out of poverty. For example, recent Harris polls found that all age groups support the current levels of benefits and that only 5 percent of persons under the age of thirty who were polled expressed willingness to balance the budget by cutting Social Security benefits. A January 1981 Harris poll found opposition to cutting Social Security benefits among all age, regional, socioeconomic, and political groups in this country. As the recent Senate vote clearly demonstrated, there is absolutely no political support for the proposal to cut benefits.

Secondly, government statistics clearly show that Social Security represents the essential "safety net" for the aged poor in this country. And, as we know so well, the poor elderly in this country are overwhelmingly women who are presently unmarried. Most of these poor older women are widows. More than one-third of all unmarried women age 65 and over live only on Social Security. In 1978, 38 percent of the unmarried women age 65 and over had incomes below the poverty line. In the period from January to March 1980, the average monthly benefit paid to widowed mothers of deceased workers was only $212. Any reduction in benefit levels for older women who depend on Social Security will have the direct effect of increasing the proportion of older women who live in poverty.

We need only examine a few of the proposed cuts to illustrate graphically how women will be disproportionately harmed.

First, the proposed reduced benefit for early retirees will harm more women than men because a higher proportion of women workers and spouses retire before age 65. Women workers would only receive 55 percent of their basic benefit and homemakers would only receive 27½ percent of the benefit. As Henry Aron has testified elsewhere, no early retiree in 1982 would receive a benefit above the official poverty line. How will this affect women? First of all, because of the earnings gap between men and women, women workers who retire are four times as likely as men to receive the lowest benefits. Furthermore, a higher proportion of women than men retire before age 65, primarily due to ill health and loss of jobs. Social Security studies have found that the vast majority of early retirees do so involuntarily. At present, half of all women, compared to a third of all men, retire early. In 1979, only 8.3 percent of all women age 65 and over were still in the paid labor force, compared to 20 percent of men in this age group. Consequently, the proposed reduction in benefits for early retirees will primarily affect women, especially minority women.

Similarly, the proposal to extend to age 65 the period for averaging earnings for purposes of computing benefits will harm more women than men. Women are already heavily penalized by the addition of zero years into their lifetime averages when they remain at home to care for children and other family members. Under the proposal, three more zero years will be entered into the earnings record of most older women, thereby further depressing their average earnings. This in turn will result in even lower benefit levels for most retired women workers.

The proposed elimination of the minimum benefit is another example of the inequity to women. The Administration would have us believe that this proposal will primarily affect "double dippers" and other persons who are not among the

needy. In fact, the Congressional Research Service found that in 1978, 76 percent of the retired workers who were receiving the minimum benefit were women. These recipients amount to some 1.8 million women in 1978. If one includes dependents and survivors of covered workers, then 85 to 90 percent of the minimum benefit recipients are women. More than three-fourths of these beneficiaries are age 65 and over and more than one million of these women who are slated to lose their meager benefit are age 70 and over. Where is the promised "safety net" for these already impoverished women?

Additionally, the proposal to end dependent's benefits at age 16, rather than age 18 or 22, if the child is a full time student, will also harm women. Under this proposal, two-thirds of all widows who are receiving survivor's benefits will lose some income. Sixteen percent of these widows rely on the child's benefit to lift the family income above the poverty level.

Finally, I would like to point out the devastating effect on women of the proposal to recalculate the recency of work test for purposes of determining eligibility for disability payments. Women workers have a greater need than men for disability insurance because total disability is more prevalent among women than it is among men. Yet, as we have seen women workers tend to have fewer years covered paid employment than do men. By increasing the number of years an individual must have worked in order to be eligible for beneifts, more women than men will be found ineligible for such benefits. For example, under the existing, more generous rules, in 1974, 745,000 married and disabled women were ineligible for disability payments because they could not meet the recency of work test. There is no doubt that the proportion of ineligible disabled women workers, compared to men, will rise under this new proposal.

Secretary Schweiker has testified before Congress that the proposed cuts are merely designed to eliminate "excessive incentives for early retirement" even though Social Security studies clearly show that most retirement decisions are involuntary and are based on necessity. Women workers who suffer from job discrimination, low wages, and poor health will bear the brunt of this savings proposal.

The net effect of the Social Security cuts is to create massive holes in the safety net for the aged poor women in this country. We believe that if the American public is told of the true impact of these proposals on aging women, an even louder cry of outrage at the proposed cuts will be heard throughout this country. We applaud the efforts of this Task Force to set the facts before the Congress and the public. The older poor women of this country cannot be further degraded and impoverished.

Ms. OAKAR. Thank you very much, Ellie. I think the picture that all of you have painted dealing with the situation is very important.

I am going to ask a number of questions and then ask you to respond, if you don't mind, in writing, so that we have a good record and viable research to go on.

One of the great discouragements I face when I ask for statistics about what these cuts would mean is the problem: how easy is it for displaced homemakers to get a job? What is their age, between 50 and 60? We had some testimony that suggests you need more older people working and this will give women a wonderful opportunity to work and they want to get out of the house, et cetera.

That may or may not be true but I am wondering what the reality is about the job market today for older women.

Mrs. JONES. The job market is very bleak for the older woman. As I mentioned in my testimony many of the women do not have updated skills because they have chosen to follow the traditional role society has set. She does not have marketable skills she can sell in the work world.

Age is another barrier. Given the economy of today with many young persons, persons who are out of college with recent work experience, with degrees, they are given priority over the older woman who does not have the skills.

There are many barriers she has to overcome. One of the bigger things we find is lack of confidence. Her life has been shattered.

She has to rebuild her own life before she can make a contribution to herself, her society, and her family.

Ms. OAKAR. When my mother became a displaced homemaker she was 52. She really had a hard time finding a job. She elected to give up her position and raise five kids for better or worse. That was in 1962 when my father passed away. I know from my personal experience how hard it was for my mother.

Is that pretty much the age group we are talking about in the displaced homemakers?

Mrs. JONES. Late forties into the sixties.

Ms. OAKAR. There are not jobs out there for them?

Mrs. JONES. No, there are not. Then many times there is the educational barrier.

Ms. OAKAR. Cutting down on some of the programs relating to job training aggravates the situation. Frankly, I was amazed in my own correspondence that I receive as a Member—which may or may not be typical—when the Gramm-Latta substitute was being promoted that most people did not realize there were social security cuts in the proposal that was heralded as the saviour of our country on national television.

Was it your experience that most people did not know the specifics about that proposal? When did you start hearing from your membership on the issues related exclusively to social security?

Ms. SHIELDS. I would be glad to make a start.

I would say our correspondence reflected a concern about the social security cuts in the Gramm-Latta budget substitute but it really did not take off sharply until after further specific cuts were put forth by the administration in May.

What we are sensing in both correspondence and in talking to women with these concerns is a reluctance to their part now to believe and trust what the man said. A lot of these women voted for Reagan, there is no question about it, and they believed him but they are finding it very difficult now to have much faith in the promises that clearly are not reflected in these proposed cuts. But self-interest is a great catalyst and we are now seeing among our members, women newly politicized as never before.

It would be very interesting to have another poll taken at this time after the administration dropped the other shoe and we now know exactly what is going to happen.

Ms. OAKAR. Did you want to comment?

Ms. SMEAL. Yes. As you know, there were trial balloons in this area when Stockman suggested that the age be increased in the age retirement from 65 to 68, and the whole issue of the cost-of-living increases being cut and people began to rue them.

As a matter of fact, we have noticed a change in our organization's mail. We think part of the influx of our new membership is definitely elderly women themselves. We get an incredible number of questions on social security and pension plans.

Basically we have been saying repeatedly that the elderly women get about 55 percent of what men get on social security and that fact needs to be more well known. It isn't as fair as one would believe. But it was, of course, in the May period that the big outcry came.

I would say, though, that the polls show that women for some time have been suspicious of how much their rights will be defended under this administration.

In the election itself women lagged behind men in supporting the Reagan administration and now that lag is more pronounced. So I think not only are people upset about the social security cuts but females particularly are more upset.

I think that can be documented by an analysis of the polls themselves, that they know instinctively and sometimes actually by fact that it is affecting them more than their brothers.

Ms. OAKAR. We are up against the wall to balance the budget because Gramm-Latta locks you into a corner. You can spend and you can choose the means now but can't exceed that by law.

Do you have access to some of the means that are being dealt with here? For example, in the Ways and Means Subcommittee in an effort to meet the restrictions imposed on them by Gramm-Latta there is an elimination of the lump-sum benefit when there is a survivor. It is really as if when people are older they really don't need that $250.

Ms. SHIELDS. Isn't that different from the administration's proposal? I understand that widows and survivors will be exempt. It is others that the lump-sum will be denied, who are basically funeral home owners.

Ms. OAKAR. I am not sure but I know people who have a contract with the Government in terms of their plan are saying part of the contract was negated without their having too much to say about it.

I asked the question earlier about the trust fund because I personally am convinced if you used the trust fund in calculating what the budget means to Americans then you deceive Americans about what the social security trust fund is really being used for. In this case it is being used to offset the other problems with the budget. I am just wondering if you have taken a position on whether or not we ought to go back to the 1960's and have the trust fund be evaluated as a separate entity that cannot be used in any way, shape or form to deal with the overall budget?

Ms. SHIELDS. We haven't but it has been one of the options we have been examining. I will be glad to take back that this is something you are very supportive of.

Ms. FRASER. I think we ought to be a little careful about this trust fund concept. It has occurred to me here just as I have been listening to all this that what the Reagan proposals really are—on the one hand they say we can't use general revenues for this and social security is going bankrupt, but at the same time they are proposing to put the minimum beneficiaries under SSI which is general revenue.

Ms. OAKAR. Yes.

Ms. FRASER. It is a game of deception. That is what it really is. Therefore, I am worried about the trap we might get into if we went back to this trust fund concept.

Ms. OAKAR. When they do evaluations they really are not totally honest about where the surpluses are. How often have you read there is a surplus in medicare funds? Or disability funds? Have you ever read that as common knowledge?

We received testimony that would suggest in certain years there have been and currently there is in those areas and they are categorizing their fund. I may be wrong on that but I do think it bears inspection because they want to beef up this budget by having a real surge of funds for social security and make it look as if the budget is balanced. They have really used money that people pay into the fund as opposed to cutting in other directions—you mentioned defense, which is being increased astronomically. The price of some of those battleships might pay for some of the short-term deficit that many experts feel is a very short-term issue.

Ms. SMEAL. Our organization is doing a study on the finance but we do not accept the premise of the administration on what it is saying about the finance.

The whole concept that it is going bankrupt we believe is not an overstatement but a misconception of the fund itself anyway.

Basically one has to ask: How is it being invested? How is it being financed? What interests? What is it paying for? What has it paid for in the past? Has it funded several wars in the process?

One of the things that I feel that is another part of this whole element of real discrimination against the aged and those who can least afford it is they are to be made to feel guilty for what they take out when in fact they have paid in for years.

Ms. OAKAR. Exactly.

Ms. SMEAL. I think that we cannot be on the defensive on this financing either. There is no question it is being used to make it look as though it were being balanced.

Ms. OAKAR. I don't think the social security system is in the financial straits they would like you to believe.

I was glad to hear Commissioner Ball suggest that it is not as dramatic as everyone would have you believe and that indeed in the near future we are going to see a windfall in certain areas in the coming decade.

It would be very helpful to have data provided that would relate to how they make these projections because, as I indicated earlier, they usually take the negative factors but not the positive factors.

When you are relying on one source, you are going to get pretty much what they want you to have sometimes. It is not easy to find the true nature of these complex issues.

I am glad you are doing studies. I think more material on these kinds of issues will assist us in showing whether or not the system, which was established in 1935, has to grow and broaden to accommodate the changing demographics particularly the changing role of women in today's society. I think it is very important that we have that input.

Believe me, if you don't do it, nobody else is going to. It is the women's organizations and the organizations that relate to older Americans that have the burden of providing the data.

I want to say that I am very glad to hear that the American people are aroused. That is very important to us. You represent such a cross section of groups.

Ms. SHIELDS. Very cross.

Ms. OAKAR. I think it is just terrific you have been able to be here today to show there is a consensus among women's organizations and older Americans' organizations on this issue.

Hopefully, this type of action will unite people on various issues.

I really appreciated your testimony. I am very happy you were able to come.

I want to thank our two female reporters who have worked so hard today. I know you have done an excellent job.

The committee stands adjourned.

[Whereupon, at 2:30 p.m., the task force was adjourned.]

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APPENDIX

NATIONAL RETIRED TEACHERS ASSOCIATION,
AMERICAN ASSOCIATION OF RETIRED PERSONS,
Washington, D.C., June 18, 1981.

Hon. MARY ROSE OAKAR,
Chair, Task Force on Social Security and Women, House Select Committee on Aging, U.S. House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE OAKAR: I sincerely regret that I was unable to testify at your recent hearings on the impact of President Reagan's social security cutbacks on older women.

Enclosed are two documents which I would like to submit for the Task Force's hearing record. One document focuses specifically on the impact of various social security reform proposals on older women. The other document comments on the broader impact of the Administration's proposed cutbacks and NRTA-AARP alternatives to those cutbacks.

Thank you for providing our organization with the opportunity to participate in your hearing. You are to be commended for taking the initiative in highlighting the serious implications which the Reagan proposals have for older women.

Sincerely,

LAURIE A. FIORI,
Legislative Representative.

Enclosures.

STATEMENT OF NRTA-AARP, SUBMITTED TO THE TASK FORCE ON SOCIAL SECURITY AND WOMEN OF THE HOUSE SELECT COMMITTEE ON AGING

OVERVIEW

The Administration's package of social security cutbacks is unacceptable to the Associations for two reasons: it would cut benefits excessively, and it would cut them far too abruptly. While we are pleased that the Administration has chosen to construct its proposals on the basis of a work incentive strategy, we believe that this package goes too far, too fast.

Older persons—and particularly older women—are economically vulnerable and have few options. This group has been experiencing rising poverty rates and sharp declines in their real income situations due to inflation's harsh impact on their fixed incomes. As a group, they can least afford substantial cuts in a basic income program like social security. The continuation of full cost-of-living protection is especially critical for the elderly since, in many cases, this is the only income that stands between them and poverty.

For the long term, the Associations are pleased that the Administration has adopted a work promotion concept for social security reform by recommending abolition of the earnings limit and by maintaining the full benefit retirement age at 65 rather than raising it to 68. However, we must object to the proposal to reduce drastically early retirement benefits. The cut is too abrupt and more punitive than is necessary to discourage early retirement.

If this measure were enacted, millions of older workers approaching age 62 and about to retire would find their own and their spouses' benefits slashed by over one third. Individuals affected would, in many cases, be older workers unable to keep working due to poor health or poor employment prospects.

The proposed reductions in disability protection would make matters worse. These would deny DI benefits to those with chronic ailments who become slowly disabled and those partially disabled who, because of their age, lack of education or up-to-date skills, cannot be expected to be reemployed.

The more reasonable solution to social security's short-term financing problem would be to provide sufficient additional revenue to OASDI on a temporary basis to stabilize it over the next 5 years. Raising revenue for social security could entail having to reduce other government expenditures or to increase revenues from non-

payroll tax sources—as, for example, a temporary surtax on the income tax. The point here is to avoid frustrating the effort to balance the budget, one of the things that must be done to bring down inflation.

As limited and temporary amounts of general revenue are used to stabilize social security in the short term, Congress should move to gradually phase in well-conceived changes to deal with the long-term problem. These changes should reshape social security so that it will encourage older and younger persons to increase their work effort and make the system more equitable in its treatment of individual workers, particularly women, and more adequate for retirees.

Another Administration proposal which we must oppose is the reduction of basic benefits awarded to all future retirees through gradually reducing the ratio of benefits to pre-retirement earnings from 41 percent to 38 percent. This measure would try to address social security's long term deficit but leaves the current benefit and financing structure intact. We have long advocated a complete restructuring of social security over the long term which is described in detail later in this statement.

IMPACT ON OLDER WOMEN

I would like to highlight, briefly, how cutback proposals made by the Reagan Administration and Members of Congress would impact on the current generation of older women.

1. Cost of living adjustments

Any proposal that would reduce social security cost-of-living protection would have the harshest impact on older women because they currently make up the bulk (72 percent) of older persons living below the poverty threshold. In 1978, 38 percent of unmarried, older women and 17 percent of all women age 65+ had incomes below the poverty line. Social security payments to women tend to be low and for nearly two-thirds of them represent their sole source of income.

The Administration's proposal for a one-time delay in cost-of-living adjustments is mild compared to other proposals, such as the one sponsored by Senator Hollings which would permanently delay cost-of-living adjustments in every year (not just one year) and cap those adjustments at the lower of the rise in wages or prices. Such proposals would be economically devastating to older persons and would rapidly push increasing numbers of them into the lower reaches of the income distribution—below the poverty threshold in many cases. These proposals would accelerate the deterioration already occurring in the elderly's income situation.

2. Early retirement

Social security statistics indicate that, in 1977, 74 percent of women elected early retirement benefits, as either dependent spouses or workers, compared to 62 percent of men. Surveys indicate that a higher proportion (one-half) of working women—compared to one-third of working men—retire before age 65 due to either poor health or loss of job.

It should be clear from these statistics that any drastic reduction in early retirement benefits would financially harm a large number of older women who collect social security as dependent spouses, or widows of early retirees, or as workers. The early retirement reduction, because it is permanent and carried throughout older persons' retirement lives, is likely to swell the poverty rolls and create a new class of impoverished older persons, a majority of whom will undoubtedly be older women. Proposals to raise the retirement age to 68 (such as the one sponsored by Representative Pickle) would produce this result just as the Reagan Administration's plan would. The only difference would be that the Administration plan would cause the increase in poverty sooner rather than later.

The Administration proposal to raise the benefit computation point from 62 to 65 as a further means of discouraging early retirement would also disproportionately impact on working women retiring in the future. This proposal has the effect of lengthening by three years the period over which earnings must be averaged in calculating initial benefit awards. Working women, because they are more likely to have periods of low or no earnings due to child bearing and other family responsibilities, will suffer a benefit reduction from this proposal since they will no longer be able to drop-out as many years of zero or low earnings. The reduction will be even sharper if early retirement is chosen.

3. Disability insurance (DI)

The Administration's proposed restrictions on DI protection will particularly affect older workers and working women. The proposal to disregard "non-medical" factors in determining disability status will impact on many disabled older women. Displaced homemakers, whose age, lack of education, poor reemployment prospects

and inadequate work experience would now allow them to qualify for DI would be denied eligibility in the future. Over one-third of DI beneficiaries, age 60 to 65, are determined to be disabled based on non-medical factors.

The Administration's proposal to tighten both the work requirement and recency of work test for DI eligibility will obviously cause many women to lose disability protection since they are most likely to leave the labor force for substantial periods of time for the purpose of child bearing or other family responsibilities.

4. Minimum benefit

Women make up 85 to 90 percent of all minimum beneficiaries, and 76 percent of all beneficiaries who receive the minimum as retired or disabled workers are women. It is clear that any attempt to eliminate minimum benefits in a retroactive manner will harm thousands of low-income older women. The argument is often made that the primary recipients of the minimum are retired federal, state or local government retirees who are considered to be reaping a windfall from this benefit. This argument is made based on a 1979 survey of minimum beneficiaries done by the GAO. This survey is far from thorough since no information (regarding degree of income dependence on the minimum benefit) was obtained from 26 percent of those surveyed.

Although many minimum benefit recipients are receiving an unintended advantage from the minimum provision, there would still be many, low-income individuals who would be left with no assistance—not even SSI assistance—if the minimum were abruptly eliminated. This group would include early retirees between ages 62 and 65, widows and widowers between ages 60 and 65, and many other low-income, elderly persons who meet the SSI income test, but not the very restrictive assets test. Even the GAO Report recognized the potential hardship to this group of recipients and recommended the following: "To minimize the hardship of the few needy beneficiaries who would not be eligible for SSI, the Congress could authorize a limited SSI payment which would replace a portion of the social security benefit lost when the minimum provision is eliminated."

Reform is needed in the minimum benefit as well as the student benefit area, however, reform should not be achieved by a precipitous cutback of benefits for current and/or newly eligible recipients who have reasonably worked for and planned on this source of income. Time needs to be provided for a gradual, thoughtful and fair phase-out of these benefits.

FUTURE REFORM

Problems of benefit inequity have arisen from the differential treatment of men and women under the social security system. These problems have been created over the past 40 years due to the rapid changes that have occurred in the roles of men and women in the family setting and in the workplace. The possible reforms that could be made in social security in response to these problems are major both in terms of the number of people they would affect and the billions of dollars in benefit expenditures they would involve.

Since the earnings sharing option has been in the forefront among possible reforms, I will focus my comments on that plan. Applying an earnings sharing concept to the social security system—although it has many positive effects—would be a major and extremely complex undertaking. It would involve a comprehensive revamping of the benefit structure along with complicated transitional rules. This process would be undertaken to achieve the objective of having the system adhere to the social principle that marriage is an economic partnership of equals. Unfortunately, many policymakers, including a majority of the 1979 Advisory Council, are not sure that this is a social concept with which a majority of society would agree either now or in the future.

Earnings sharing as well as most of the similar plans which have been advanced to date have two points in common. First, they all attempt to deal with the multiple problems and sometimes conflicting goals of benefit adequacy and benefit equity using one instrument—the social security system; and second, none of them deals successfully or comprehensively with all these problems. In attempting to address benefit inequities or inadequacies for one group of beneficiaries, most of the plans would end up creating new inequities or inadequacies for other groups.

Some of the plans are costly and those plans which would hold down costs will involve significant benefits cuts for major classes of beneficiaries. Our Associations would not oppose deliberalizing benefits for certain beneficiaries as long as these deliberalizations are accomplished over a long period of time, through use of lengthy transition periods, and as long as they do not affect current beneficiaries or persons nearing retirement. However, any benefit deliberalization scheme must be rational and be part of a comprehensive restructuring of the system that makes sense in the

light of emerging demographic, economic, and employment trends. Not only do most of these proposals fail to address the major problems flowing from these trends, but they may indeed exacerbate the situation by diverting an increased proportion of social security's financial resources toward social adequacy concerns leaving less resources available to restructure the system so that it strongly encourages individual work effort.

Given the immense financial problems which social security faces—especially over the long term—we believe it makes better sense to focus reform efforts on changing the system so that it can accommodate emerging trends.

First, there are economic trends which have and may continue to restrict the amount of resources available for social security. Second, there is the demographic trend which portends a relatively smaller working population being called upon to support a larger, older population. Third, there is the declining elderly labor force participating rate which could exacerbate the consequences of the demographic trend and cause a dangerously high degree of dependence among the elderly on government programs for income. Finally, there are the changing family and social patterns which are causing the system's benefit and financing structures to be increasingly perceived as unfair, particularly by working wives and single workers.

The combined impact of all these factors will make it undesirable and impossible to continue social security as presently structured and into the next century. If that were attempted, either a massive payroll tax increase or benefit cuts of equal magnitude would be prompted.

To avoid having to choose between tax increases and a piecemeal dismantling of the system's benefit protections, the Associations recommend comprehensive changes in the systems's benefit and financial structures. These changes should encourage employment (especially among the elderly), assure that scarce resources are utilized in an effective and efficient manner, improve public support for the programs, and alter the financing structure so that it contributes to, rather than detracts from, the nation's economic health.

To achieve these objectives, social security, after having undergone comprehensive change, should include the following:

A benefit structure that strongly encourages older persons to maximize their work effort and delay their retirement dates;

A more diverse and less inflationary financing structure that would use separate tax mechanisms to finance social security's divergent functions of earnings replacement and social adequacy;

A benefit structure which clearly separates the system's earnings replacement and social adequacy objectives and, in the process, treats individual working wives and single individuals in a more equitable manner.

A number of changes need to be made in social security in order to promote elderly labor force participation. These include reversing the early retirement trends, phasing out work disincentives, including the earnings limitation, and phasing in work incentives such as larger benefit credits for those who elect to delay their retirement past age 65.

To be successful in getting the elderly to maximize their work effort, the social security benefit structure must be changed so that, first, it ceases to penalize older persons for continuing to work, and, second, it clearly compensates them for working longer. Changes in the benefit structure that have, in the aggregate, good propects for increasing elderly work effort will, in turn, help raise the tax revenues needed to finance social security (as well as other income support programs) at benefit levels that will be adequate for the future, larger elderly population.

Beyond measures designed to promote increased work effort on the part of the elderly, social security's benefit and financing structures are in need of major revamping. Our Associations want to see the system comprehensively reformed and reordered so that the many functions it presently performs—using a single benefit and a single financing structure—would be sorted out among separate structures, each one specifically designed to perform each function and financed appropriately. In this manner much of the inequity, waste and duplication inherent in the system's current structure would be eliminated and we would come to rely on more than just the payroll tax to finance benefits.

Our reform proposal, in the process, would also make social security more equitable in its treatment of individual workers—both men and women. We are recommending that the payroll tax, which is levied directly on workers' wages be used solely to finance the cost of benefits to workers and the amount of an individual worker's benefit ought to be more strictly related to the prior earnings/payroll tax contributions of that worker. But the ratio of that benefit to final average wages of the worker should be increased to about 55 percent (from the current 41 percent).

Those elements of the present social security system which are now financed by the payroll tax and which are welfare in nature (i.e., social security's weighted benefit formula, minimum benefits, etc.) or can be characterized as "social adequacy" in nature (i.e., student spouse or other dependent benefits) should be gradually phased-out as higher benefits for workers are phased-in. Simultaneously, new social security programs should be established to perform these welfare/social adequacy functions.

The Associations support this type of long-term restructuring because it will help to relieve cost pressures on the system, and in the process make it a more equitable and therefore popular program. In addition, this type of restructuring will provide current young workers with the assurance that they will get a benefit from social security that reflects what they earned and paid for and represents a "good buy" in terms of their expected rate of return on investment. In addition, they would have the assurance that, in their later years, they would have good prospects for achieving income adequacy and avoiding poverty. This is an assurance that the system as presently structured cannot provide.

NRTA-AARP Statement on Reagan Social Security Cutbacks

OVERVIEW

In announcing the details of the Reagan Administration's proposed social security cuts, Richard Schweiker, Secretary of Health and Human Services, claimed the massive cutbacks were necessary to maintain social security's short- and long-term financial solvency. Over the next five-year period, the Administration's package would cut benefits by $9.1 billion in 1982 and by over $81 billion cumulatively during the next five-year period, 1982-86. Over the long term (defined as the next 75-year period), total social security payout would be reduced by nearly 25 percent as a result of these reforms.

NRTA-AARP reaction.—The Administration's package of social security cutbacks is unacceptable to the Associations for two reasons: it would cut benefits excessively, and it would cut them far too abruptly. Older persons—both current retirees and those approaching retirement—are economically vulnerable, especially in the current inflationary environment. They can least afford substantial, precipitous cuts in a basic income program like social security.

The Associations believe that a more reasonable to social security's short-term problems would be to stabilize the system with temporary infusions of general revenue while phasing in structural changes which would make the system more equitable, work-promoting, and solvent.

For the long term, the Associations are pleased that the Administration has adopted a work promotion concept for social security reform by recommending abolition of the earnings limit and by maintaining the full benefit retirement age at 65 rather than raising it to 68. However, we must object to the drastic reductions in early retirement benefits and disability protection. If these measures were enacted, millions of older workers approaching age 62 and planning on retirement would find their own benefits and their spouses' benefits permanently slashed by over one-third.

We must also object to the Administration's proposed reduction of benefits to all future retirees through altering the basic benefit formula. This measure would try to address social security's long-term deficit but leave the current benefit and financing structure intact, whereas we believe that a major overhaul of the system is needed.

Finally, we are opposed to the Administration's proposal for a one-time delay in payment of the 1981 cost-of-living adjustment. Even with full COLA's the elderly poverty rate jumped in 1979 by over a full percentage point—the highest increase ever. The rate for the non-elderly, in contrast, remained static.

I. Early retirement benefit cut

Proposal: A permanent, sharp reduction in early retirement benefits beginning next year.

NRTA-AARP positions.—The Associations oppose such a large and precipitous cut in early retirement benefits. Millions of older workers approaching age 62 and planning on retirement would find their own benefits and their spouses' benefits slashed by over one-third. This benefit reduction, because it would be permanent and carried throughout older persons' retirement lives, is likely to swell the poverty rolls and create a new class of impoverished older persons. Such a large benefit cut would also play havoc with workers' retirement financing plans since many of them

are locked in to early retirement decisions by collective bargaining agreements or similar contracts.

Such a large early retirement penalty would be particularly harsh for older workers who lose their jobs and have no employment prospects or who are unable to keep working due to poor health. Surveys indicate that more than half of the workers are involuntarily retire cite poor health as the reason for retirement and these retirees tend to be a low-income group.

Maintaining age 65 as the full benefit retirement age and avoiding an evaluation of that age to 68 are important legislation objectives for the Associations. Therefore, we would support some reduction in early retirement benefit levels (from the current 80 percent to 70 percent of the full benefit amount) in order to encourage later retirement and help deal with the system's long- and short-term solvency. However, such a reduction would have to be phased-in very gradually over a period of at least five years and accompanied by other work incentives (see Earnings Limit Section for further discussion).

In addition, to ensure that chronically ill and involuntarily unemployed older workers are not unduly harmed by such a proposal the Disability Insurance and Supplemental Security Income programs must be made more accessible to these older workers. For chronically disabled or unemployed and discouraged older workers who would continue to have no other option but to elect early retirement, our Associations would want the tests for disability under the DI program liberalized and would want the Federal Government to guarantee at least poverty-level income through the SSI program by lowering that program's eligibility age to 62 and by increasing the SSI payment standard to the poverty threshold.

II. Earnings limit phased out

PROPOSAL: PHASE-OUT OF THE EARNINGS LIMIT FOR PERSONS AGE 65 AND OVER.

NRTA-AARP positions.—The Associations strongly support elimination of the earnings limit. It has acted as the major work disincentive for the elderly and its elimination must be a key element of any attempt to stabilize social security financing through a work incentive strategy.

Some analysts argue that higher income persons would exclusively reap the benefits of eliminating the earnings limit. These analyses ignore the fact that over half of workers age 65 and over hold their earnings below the earnings limit and they would also benefit from repeal of the limit. Their benefit would be in the form of the higher wages which they could earn, not in the form of higher social security benefits. SSA statistics indicate in 1971, 51 percent of male workers age 65-71 kept their earnings below $3,000 (the earnings limit in effect at that time).

In addition, surveys show that persons with low retirement incomes want to work more than those with higher incomes. A 1974 Louis Harris survey indicated that 43 percent of persons age 65 and over with incomes less than $3,000 would like to work compared to 31 percent of the retired population as a whole.

To repeal the earnings limit for persons age 65 and over, SSA calculates approximately a $2.5 billion cost in 1982. This cost calculation, however, does not take into account increases in payroll and income tax receipts that are likely to result from older workers' increased work effort. A 1979 SSA study calculated that if 10 percent of workers age 65-69 continued to work full-time, then 79 percent of the cost of eliminating the limit would be offset by increases in income and payroll tax receipts.

Our Associations would add another element to the Administration's work promotion strategy—an increase in the delayed retirement credit. Beginning in 1982, current law provides a 3 percent credit to older workers for every year they delay their retirement (and collection of social security benefits) past age 65. In order to act as a stronger incentive for older workers to remain fully employed and off the social security rolls, we believe the credit should be raised to 10 percent per year.

If a sufficient number of older workers respond to this more aggressive work incentive strategy and increase their work effort, then tax revenues (both payroll tax and general tax revenue) would increase and help to reduce social security's deficit. Raising revenue in order to offset the deficit is preferable to cutting benefits. Given the magnitude of cutbacks recommended by the Administration, it is clear that incoming revenue generated by work incentives was not considered a factor in reducing the deficit. This is one reason why the Associations believe the Administration has requested benefit cuts in excess of what is necessary to stabilize social security financing.

III. Reduced benefits for all future retirees

Proposal: Reduce benefits awarded to all future retirees by altering basic benefit formula.

NRTA-AARP position.—Our Associations oppose this method of dealing with social security's long-term deficit. The Administration proposes to perpetuate the current social security benefit structure and equally reduce everyone's benefits. Our Associations have long advocated a complete restructuring of social security over the long term. We want to see it comprehensively reformed and reordered so that the multiplicity of functions it presently performs—using a single benefit and a single financing structure—would be sorted out among separate structures, each one specifically designed to perform each function and financed appropriately. In this manner much of the inequity, waste and duplication inherent in the system's current structure would be eliminated and we would come to rely on more than just the payroll tax to finance benefits.

Our reform proposal, in the process, would also make social security more equitable in its treatment of individual workers—both men and women. We are recommending that the payroll tax, which is levied directly on workers' wages be used solely to finance the cost of benefits to workers and the amount of an individual worker's benefit ought to be more strictly related to the prior earnings/payroll tax contributions of that worker. But the ratio of that benefit to final average wages of the worker should be increased to about 55 percent (from the current 41 percent).

Those elements of the present social security system which are now financed by the payroll tax and which are welfare in nature (i.e. social security's weighted benefit formula, minimum benefits, etc.) or can be characterized as "social adequacy" in nature (i.e. student benefits, dependent and spouse benefits, etc.) should be gradually phased-out as higher benefits for workers are phased-in). Simultaneously, new social security programs should be established to perform these welfare/social adequacy functions. For example, to assure benefit adequacy for a worker whose wages were very low or who had sporadic attachment to the labor force, social security would have a separate program with a separate benefit structure financed from general revenues that would supplement the basic earnings-related benefit.

The Associations support this type of long-term restructuring because it will help to relieve cost pressures on the system, and in the process make it a more equitable and therefore popular program. In addition, this type of restructuring will provide current young workers with the assurance that they will get a benefit from social security that reflects what they earned and paid for and represents a "good buy" in terms of their expected rate of return on investment. In addition, they would have the assurance that, in their later years, they would have good prospects for achieving income adequacy and avoiding poverty. This is an assurance that the system as presently structured cannot provide.

IV. COLA delayed

Proposal: A one-time delay in payment of the 1982 cost-of-living adjustment.

In 1982, the Administration proposes to shift payment of the cost-of-living adjustment (COLA) from July to October, resulting in a one-time reduction in cost-of-living protection. This proposal is quite different from other proposals such as Sen. Hollings' proposal, which would result in recurring benefit losses by delaying payment of the COLA in every year, not in just one year. The Administration is also proposing to change the CPI computation period to cover a full year, July through June. This lag-time between the end of this new measuring period and payment of the COLA would be 3 months, the same as under current law.

NRTA-AARP position.—The Association oppose any reduction in social security's cost-of-living protection since it is so vital to current retirees. We recognize that the Administration's proposal is a temporary, one-time-only reduction, and therefore is far less detrimental to retirees' interests than other proposals that would make permanent cuts in cost-of-living protection. Nevertheless, we oppose it.

Despite full COLA's provided by social security, the elderly have suffered large real income losses as a result of sustained, high-rate inflation. These losses have occurred with respect to these private income sources—private pensions, savings and other dollar-denominated assets—which represent over one-third of the elderly's total income and which are not protected against inflation. We believe it is this situation which prompted the largest rise in the elderly poverty rate—from 13.9 percent in 1978 to 15.1 percent in 1979—while poverty rates for the non-elderly remained static.

V. Disability protection substantially reduced

Proposal: Restrictions placed on disability insurance (DI) protection, particularly affecting older workers.

The Administration proposes to make it more difficult for all workers—and particularly older workers—to qualify for DI benefits. The proposal includes:

Use of the "medical" factors only in establishing entitlement to DI. Under current law, workers (especially older workers) can qualify for DI based on a combination of

medical and non-medical factors (such as age, education, reemployment prospects and work experience). More than one-third of DI beneficiaries age 60 to 65 are determined to be disabled based on non-medical factors.

Increase the work requirements needed to be insured for disabiltity. Current law requires a worker to have been employed in five out of the preceding ten years in order to qualify for DI. The Administration proposes a work requirement of 7½ years out of the previous 10. This provision would deny benefits to older workers who become progressively disabled and thus have long spells of illness which would prohibit their being able to meet this increased work requirement. Women who leave the labor force for child rearing or other family responsibilities could also lose disability protection under this provision.

Requirement that a disability be expected to last at least two years (rather than one year as under current law).

Lengthening of the waiting period for receipt of DI benefits from five to six months.

NRTA-AARP position.—The Association opposes these cutbacks in the DI program particularly since they are being proposed along with drastic cuts in early retirement benefits. The combined impact of the DI and early retirement cuts would leave thousands of disabled older workers with no option but to take early retirement and live on extremely low benefit levels for the duration of their later years. If age-62 benefits are to be reduced in any manner as part of a work promotion strategy, then the DI program must be made more, not less, accessible to older workers.

VI. Miscellanous provisions

A. Raise benefit computation point from age 62 to 65.—This change has the effect of lengthening by three years the period over which earnings must be averaged for purposes of calculating benefits. When computing their benefits, older persons who elect early retirement will be required to average in zero earnings for every year they retire before age 65. This proposal would have the effect of reducing the benefit levels for all future retirees and particularly for early retirees. Social Security benefits would be cut by $1.3 billion over the next 5-year period and by an overall 3 percent over the next 75-year period.

NRTA-AARP opposes this provision, because, in connection with the proposed stiffening of the early retirement penalty, it would be overly harsh on early retirees.

B. Impose lower family maximum.—Current law limits total family retirement benefits including those benefits received by spouses, children or other dependents to as much as 188 percent of a worker's prior earnings. The Administration proposes to lower that family maximum cap to 150 percent of a worker's primary benefit amount or 85 percent of his prior average earnings. This proposal would reduce social security benefits by $2.9 billion over the next five-year period.

NRTA-AARP would oppose this provision because it would discriminate against certain social security recipients, especially those who have dependents. Although the Administration argues that such a reform is needed to restore equity in the social security benefit structure, we believe inequities are best addressed through comprehensive, not piecemeal, reform of the benefit structure that does not single out particular groups of beneficiaries.

C. Reduce windfall benefits.—Under current law, a person who spends the majority of his working career under non-covered employment (federal, State, or local) can work under social security for a short period of time and receive disproportionately high benefits. The Administration proposes to reduce that windfall and give such retirees a social security benefit that reflects their payroll tax contribution to social security. This proposal would reduce social security benefits by $600 million over the next five-year period.

NRTA-AARP believe it is unfair to single out this group of retirees. Windfall benefits ought to be reduced through the comprehensive social security reforms we have outlined earlier. These reforms would move toward treating all social security recipients in a more fair and equitable manner.

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